



Saskatchewan
Local Government
Finance
Commission

Interim Report of the Local Government Finance Commission

January, 1985

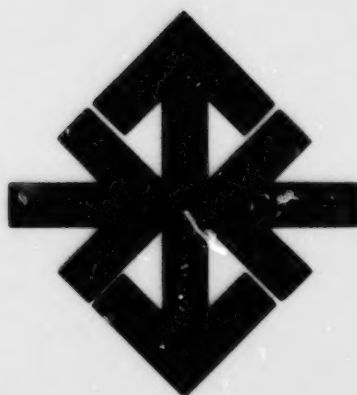


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LETTER OF TRANSMITTAL

January 3, 1985

Honourable Bob Andrew, Chairman
Cabinet Committee on Local Government Finance
Room 312
Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

We have the honour to submit the first Interim Report of the Local Government Finance Commission.

The Commission has prepared this Interim Report in order to:

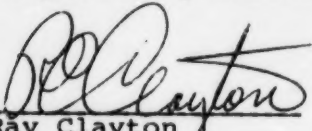
- (1) outline the issues and concerns about local government financing, which we have heard as a result of our consultative efforts to date;
- (2) outline the major issues as seen by the Commission; and
- (3) present a framework for future directions which includes the Commission's conclusions on several key issues and the areas it will be examining further over the next 18 months.

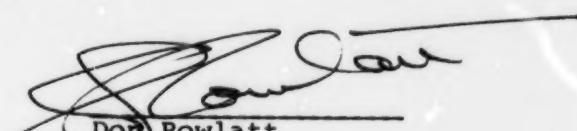
The Commission wishes to express its appreciation to the local government organizations, as well as other organizations and individuals who presented briefs and discussed their concerns with the Commission at the Options for the Future Conference, which the Commission held in September, and at the regional meetings held in

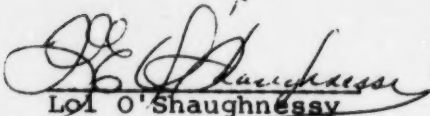
Honourable Bob Andrew
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January 3, 1985

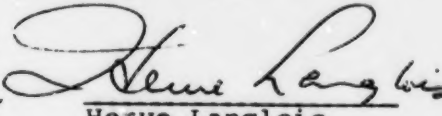
October and November. The comments received gave the Commission a much better understanding of the concerns surrounding the funding of local government.

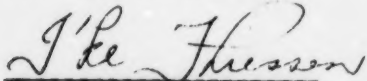
Respectfully submitted,

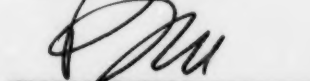

Ray Clayton
Chairman

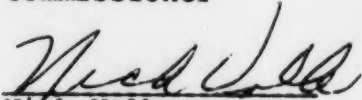

Don Rowlett
Vice-Chairman

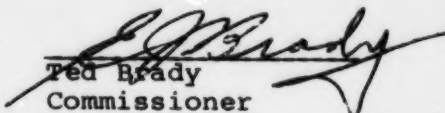

Lol O'Shaughnessy
Commissioner


Herve Langlois
Commissioner


Ike Thiessen
Commissioner


Bob Linner
Commissioner


Nick Volk
Commissioner


Ted Brady
Commissioner

PREFACE

The Local Government Finance Commission was established by the Government of Saskatchewan under The Public Inquiries Act by Order-in-Council #635/84, dated May 23, 1984. The Commission has a two-year mandate to inquire into and identify options for possible changes to a broad range of financial issues facing local governments. The issues the Commission is examining include the following:

- capital requirements and funding mechanisms
- provincial-municipal revenue sharing
- financing elementary and secondary education
- the property tax structure
- the role of property tax rebate programs
- alternative revenue sources
- local funding of hospitals
- local funding of libraries
- assessment principles and processes
- property tax collection processes
- tax abatements
- commercial-industrial property tax sharing
- possible shifting of program responsibilities.

The Commission has eight members:

- Ray Clayton, Chairman, was formerly the Deputy Minister of Urban Affairs and the Deputy Minister of Education
- Don Rowlett, Vice-Chairman, Associate Deputy Minister of Finance
- Ted Brady, Past-president of the Saskatchewan Urban Municipalities Association and Past-president of the Federation of Canadian Municipalities, representing S.U.M.A.

- Ike Thiessen, Vice-president of the Saskatchewan Association of Rural Municipalities, representing S.A.R.M.
- Nick Volk, Past-president of the Saskatchewan School Trustees Association, representing, S.S.T.A.
- Lol O'Shaughnessy, business person and involved in community activities, member-at-large
- Herve Langlois, Deputy Director of Education, Saskatoon Public School Division, member-at-large
- Bob Linner, Prince Albert City Commissioner, member-at-large.

The Commission began its deliberations in June, 1984. Since then, the Commission has had 19 days of Commission meetings, a 2-day conference, and 13 days of regional meetings. At its first meeting, the Commission met with the Cabinet Committee responsible for the Commission's activities. The Cabinet Committee is comprised of the Hon. Bob Andrew, the Hon. Tim Embury, the Hon. Louis Domotor and the Hon. Pat Smith. The Cabinet Committee encouraged the Commission to look at as broad a range of problems and possible solutions as possible, and report on its findings in a series of Interim Reports, rather than waiting until the end of its two-year mandate to present one final report. In that regard, the Cabinet Committee asked that the Commission's first Interim Report be presented to the Government by the end of 1984 so that the Government would be able to take the Commission's work to that point into account in making any necessary decisions for the 1985-86 provincial budget.

EXECUTIVE SUMMARY

The Local Government Finance Commission has devoted most of its first six months to consulting with local governments, their provincial organizations and the public in order to obtain their views on the issues involved in funding local governments. This first Interim Report outlines the concerns that were raised and what the Commission considers to be the major issues related to local government financing. The Report then presents the Commission's framework for future directions and recommendations or initial conclusions on some of the issues. A number of areas will be examined in more depth over the remaining 18 months of the Commission's mandate.

MAJOR ISSUES AND PROBLEMS

The major issues as viewed by the Commission were:

1. Access to the Property Tax Base

The dominant issue raised at the fall conference and at the regional meetings was access to the property tax base.

Some suggest that schools, hospitals and libraries ought not to be financed from the property tax because of what they considered to be inequities in the assessment system when used for "people-oriented services", the difficulty in getting a fair rural/urban division of tax loads, and the problems created by having more than one taxing authority occupying the same tax base. The proponents of this view suggested that autonomy of local governments is not dependent on having a local source of revenue and that a provincially administered tax on basic income could replace revenues now generated by the school property tax.

Others state that the property tax has the advantage of being stable and predictable, that a local property tax is required to ensure local autonomy, that a better reassessment system would alleviate many problems with the property tax, and that problems with the level of property taxes could be alleviated through increased provincial funding or an expanded system of property tax rebates.

The Commission noted that much of the concern over the issue of access to the property tax base reflected three other issues of a fundamental nature: the lack of responsiveness of the property tax to income variations, inequities in the assessment base

and the level of equalization in provincial operating and capital grant programs.

2. Property Tax and Income Variations

There is a lack of responsiveness of the property tax to changes in the income of those who pay the tax. The Commission considers this to be a fundamental problem that contributes to many of the concerns about the level of property tax and the question of which types of local governments should have access to the property tax base.

3. Assessments and Equity

The Commission identified two major issues related to property assessment. The first dealt with inequities in tax load among categories of taxpayers. The second dealt with the reassessment processes with particular reference to changes in assessment criteria and infrequent assessments. The Commission has concluded that these also are fundamental problems which lead to much of the concern about the property tax and the purposes for which it is used.

4. Degree of Equalization in Grants

Equalization in provincial grant programs is intended to enable local governments to provide similar levels of service at similar local tax rates. Insufficient equalization can put additional financial pressures on some local governments, adding to the concerns over the property tax and the services it is used to finance.

5. Property Tax Rebates

There was a widespread negative attitude to the current property tax rebate programs. It was suggested that they served political rather than economic objectives, incurred unnecessary administrative costs and that many payments were made to those not really needing the assistance. The Commission noted that the rebate programs had the effect of redistributing the net property tax burden in a substantial way, that they tended to make the property tax system significantly more progressive, but that these effects were not generally understood by the public. The Commission concluded that the programs could be substantially refocussed to more effectively help those who require assistance in paying local taxes.

6. Capital Funding

There is considerable short-term uncertainty in urban capital funding arising from the impending expiry of the Community Capital Fund Program. There is also a need for clarification of the future role of the Saskatchewan Water Corporation.

Types and levels of need and the nature of programming to meet the long-term requirements of both urban and rural municipalities are substantial issues.

7. Public Sector Fiscal Imbalance

In the past the federal government has made substantial contributions to such local government areas as municipal infrastructure, and the provincial government was able to make major increases in grants to local government at various times. The major imbalance between revenues and expenditures at the federal level and the lesser but nevertheless substantial imbalance at the provincial level may have implications for senior government programs, including transfers to local governments, since senior governments will likely undertake a vigorous examination of their priorities.

8. Sharing of the Property Tax Base

There is considerable tension among those who share the property tax base, and this tends to lead to insufficient communication and co-operation among local governments.

9. Northern Governments

Northern Saskatchewan has a unique set of problems arising from a very low local tax base, high costs of providing services, and high levels of unemployment.

10. Health Delivery and Funding

There are issues relating to the allocation of local hospital costs among municipalities, the use of the property tax for hospital purposes, the multiplicity of health-care agencies and the overlapping of jurisdictional boundaries, and the access of private hospitals to local revenues.

FRAMEWORK FOR FUTURE DIRECTIONS

The main conclusions reached by the Commission, in terms of directions that will guide the future work of the Commission and in terms of specific proposals are:

1. Strong Local Government

The Commission believes that autonomous and accountable local governments are important to give effect to the varied desires of individual communities for different types and levels of local services.

To be strong, local governments must have a reasonably broad and unrestricted legislative mandate, an adequate revenue base from combined local and provincial sources, a maximum of unconditionality in provincial funding programs, a meaningful source of local revenue, and a mechanism for ensuring accountability to those who are served.

2. Continued Reliance on the Property Tax

The Commission has concluded that the property tax will continue to be a major source of funding for the local government sector. The question of what services should be financed from the property tax and which local governments should have access to the property tax are separate questions.

The Commission believes that much of the concern surrounding the continued reliance on the property tax base could be addressed by a new refundable income tax credit, improved property assessments and improved equalization in provincial funding programs for local governments.

3. New Refundable Income Tax Credit

The Commission recommends the introduction of a new refundable income tax credit, based both on property taxes paid and on family income, to replace the current property improvement grant, the senior citizens school tax rebate, the renters property tax rebate and the farmers' home quarter tax assistance programs.

By providing a substantial property tax credit to those whose incomes are low, the equity of the property tax would be enhanced and a substantial number of the concerns regarding the property tax could be alleviated.

4. Review of Assessments

The Commission will devote much of its attention over this next 18 months to addressing the inequities in the assessment base, the governance of the assessment function, and problems arising from the reassessment process.

5. Equalization

The Commission intends to pursue the possibility of achieving greater equalization in provincial grant programs, thereby bringing about a more equitable distribution of tax loads on the local taxpayer.

6. Access to the Property Tax Base

In view of the magnitude and complexity of the issue, the Commission intends to give priority attention to the access of local governments to the property tax base in its next interim report. The issue is not only which local governments should have access, but also to what extent and by what means they should have access.

The review will include a thorough analysis of suggestions made about alternate sources of revenues for the financing of local governments. As well, the Commission will analyze the implications of increasing or reducing the share of local government revenues generated from provincial government transfer payments.

7. Operating and Capital Programs

The Commission proposes that current provincial operating and capital programs remain in essentially the same form over the next two years until the Commission has submitted its final report. Part of this "status quo" would be a two year extension of the Community Capital Fund Program. The future role of the Saskatchewan Water Corporation requires clarification so that provincial capital programs can be designed and to enable municipalities to plan.

The Commission will be exploring the capital needs of urban and rural municipalities and will be examining options for stable and predictable sources of capital financing.

8. Other Matters

Over the remainder of its mandate, the Commission proposes to review ways of improving relations among local governments, study issues pertaining to northern local governments, and examine certain aspects of the governance and funding of health-care boards and libraries.

CHAPTER I
CONSULTATIVE PROCESS

Early in its deliberations, the Commission agreed that its first priority was to consult with local government organizations and the public about the financial issues facing local governments. The Commission has, therefore, spent most of its first six months holding meetings with local government organizations and the public and considering the issues raised through that process.

The Commission identified the following five major local government organizations with whom it should begin its consultative process:

- The Saskatchewan Urban Municipalities Association
- The Saskatchewan Association of Rural Municipalities
- The Saskatchewan School Trustees Association
- The Saskatchewan Library Trustees Association
- The Saskatchewan Health-Care Association.

The Commission met with these groups in late June and early July to outline its plans and to seek their co-operation and input into the deliberations of the Commission. The Commission asked for comments on the financial issues facing local governments and on the Commission's plans for the consultative process. On July 5, 1984 the Commission announced that it would be holding a major conference in late September, followed by a series of 11 regional meetings throughout the Province from mid-October to mid-November.

For these meetings, the Commission prepared and published a Background Paper on Local Government Financial Issues in August, 1984. This document presented statistical and program information on various aspects related to the funding of local governments. (See Appendix 1 for a brief summary of the financial data included in the Background Paper.) The Background Paper was widely distributed in order to assist local government organizations and the public to participate in the consultative process.

A major conference entitled "Options for the Future", was held in the Legislative Assembly Chamber in Regina on September 26 and 27, 1984. The Commission invited to the conference the five major local government organizations, as well as

representatives from a number of other interested organizations and government departments and agencies which have an interest in the Commission's work (Appendix 2). A total of 148 people attended. The objectives of the conference were to:

- provide an opportunity for the major interest groups to outline the local financial issues of concern to them;
- broaden the perspective of the participants and the public about the issues;
- provide information to local groups and individuals to assist them in preparing presentations for the regional meetings; and
- heighten the awareness and interest of the public about the issues being examined and the proposed solutions.

The Honourable Grant Devine, Premier of Saskatchewan, gave the opening address. Premier Devine spoke about the importance of strong and independent local government, the value of the consultative process and the commitment of the Government of Saskatchewan to give prompt consideration to Commission reports. The Commission then heard briefs from the five major local government organizations on the general issues related to local government funding and on several specific issues such as property tax rebates, and operating and capital grant programs.

Two notable speakers, Dr. Enid Slack and Dr. John Brennan, addressed the conference on the broader issues related to local government financing. Dr. Enid Slack is an economist, noted author and teacher. Dr. Brennan is Dean of the College of Commerce at the University of Saskatchewan, with an extensive background in finance and management.

The conference was telecast on cable television channels throughout the Province, and a transcript of the proceedings was published and sent to all conference participants.

The conference successfully met the expectations of the Commission. Excellent briefs were presented by the participants and a thorough discussion was held of some very important issues and concepts.

Immediately following the conference, the Commission prepared a booklet on Issues and Options for Funding Local Governments and distributed it to all local governments and their parent organizations and other interested parties. The purpose of this booklet was to provide information to local organizations to

assist them in preparing briefs for the regional meetings, and to encourage them to attend.

Regional meetings were held in 11 communities in the Province, beginning on October 18 and ending on November 16 (Appendix 3). The purpose of the regional meetings was to:

- provide an opportunity for local groups and individuals to inform the Commission about the issues and concerns as they see them;
- increase the public's awareness of the broad nature of the issues involved in funding local governments; and
- allow the Commission to get local opinion on possible approaches or solutions to problems.

The Commission received an excellent response from citizens and local government organizations, with 126 briefs presented at the meetings, and an additional 33 briefs and 13 letters sent directly to the Commission. The briefs were presented by a wide cross-section of local government organizations, as well as other local groups and a few interested taxpayers (Appendix 4).

The regional meetings provided an opportunity for the Commission to hear first-hand from local groups and individuals throughout the Province about their unique problems related to funding local government. The Commission was also able to discuss in some depth a number of the problems and solutions presented and to provide information on those issues and options as a result of its own research activities.

In late November and early December, the Commission held meetings with the executives of S.U.M.A., S.A.R.M. and S.S.T.A. to review its findings to date and to discuss various options for resolving local government financial problems. It is the Commission's intention to continue consulting with local governments and their parent organizations throughout its two-year mandate, in order to explore fully the problems and options for possible changes.

CHAPTER II

WHAT THE COMMISSION HEARD

During the "Options for the Future" Conference, and the regional meetings, the Commission heard many comments and concerns from local government organizations and individuals about the financing of local governments. A detailed outline of the issues and comments presented to the Commission is contained in Appendix 5. The following summarizes what the Commission heard:

- (1) local governments require autonomy and decision-making authority if they are to respond to varying local needs and conditions. Some suggested that such autonomy can be provided through legislation, adequate funding, unconditional funding and access to a local source of revenue. Others felt that a source of local revenues was not necessary to ensure the autonomy of local governments;
- (2) accountability by decision-makers to the taxpayers is essential for effective local government. There were differing views on the extent of accountability of school, library and hospital boards which levy or requisition but do not collect their own local taxes;
- (3) local governments generally felt that their roles would not change substantially in the future. They viewed their current levels of service as being satisfactory, although they would likely provide additional services if more money were available;
- (4) the property tax received the largest amount of comment. The advantages of the property tax were described as being its stability, predictability, administrative simplicity and being subject to local control. Issues related to the property tax most frequently identified included:
 - its insensitivity to fluctuating income levels of the taxpayers;
 - inequities in the incidence of the tax on different categories of taxpayers. These concerns related mainly to inequities perceived in assessments, the current reassessment process and the resulting burden of tax on some taxpayers relative to others;
 - access to the property tax. Rural municipalities and some urban municipalities stated that the property tax

should be used only for services related to property and that other non-property related services should be financed by a tax based on income. School boards and most cities felt that school divisions should retain access to property taxes, although some felt that access to the property tax should be retained just for "discretionary expenditures";

- increases in particular components of the property tax. Several municipal governments expressed concern about increases in school mill rates and the impact of these increases on the ability of municipal governments to finance their own services;
 - erosion of the tax base. Annexations by other local governments and exemptions from tax for provincial government properties, parks and some institutions were criticized as limiting the tax base of some local governments; and
 - taxation of resort properties for education purposes;
- (5) concerns about property tax rebate programs were raised by many local governments. It was suggested that the rebate programs:
- have political rather than economic objectives;
 - provide funds to many people who do not need them;
 - leave an impression that local governments levy excessive rates of taxation;
 - result in unnecessary administration costs; and
 - are an inefficient way to reduce local taxes.

Solutions suggested included paying rebates based on income levels, paying rebate dollars directly to local governments to reduce taxes, or eliminating rebates altogether and using the funds to increase grants to school divisions so that school mill rates could be reduced;

- (6) representatives of local governments in Northern Saskatchewan noted the limited tax base in the north, the significant level of expenditure needs and an inadequate economic base as the causes of financial difficulties experienced by their governments;

- (7) operating and capital grant programs to school boards were generally seen as acceptable, although concerns were expressed about some elements of the operating grant formula, such as:

- the declining share of education costs paid by the grant and the resulting increases required in property taxes;
- the difference between recognized costs in the formula and actual expenditures incurred by school boards;
- the amount of recognition given to rural/urban differences in per pupil costs; and
- the operation of a number of various special purpose adjustments included in the formula.

School divisions generally agreed that increasing the provincial funding of education costs to 75 - 80% would resolve a number of problems relating to education property taxes without eroding their autonomy;

- (8) the provincial revenue sharing operating grant formula for rural municipalities was generally acceptable, although some felt that the level of the grants paid was inadequate to meet increasing costs. Rural governments stated that they should be entitled to capital grants similar to those paid to urban governments;
- (9) provincial revenue sharing grants for urban governments were generally acceptable. Proposed improvements included a predetermined escalator, greater emphasis on equalization, recognition of the special needs of resort areas, and increased recognition of some costs.

Ongoing unconditional capital grant programs were generally supported as were conditional capital grants to finance large capital projects which occur irregularly, particularly some types of sewer and water projects. Uncertainty was expressed about the role of the Saskatchewan Water Corporation;

- (10) library boards supported the combination of provincial grants and local levies to fund libraries. Concerns were expressed about the level of provincial funding, particu-

larly for the municipal libraries in Regina and Saskatoon. Library boards proposed direct capital grants to libraries from the provincial government;

- (11) hospital boards expressed concern about the adequacy of the two mill levy on municipalities which do not wish to be part of a Union Hospital District. Different views were expressed as to whether or not private hospitals should have access to property taxes. Some municipal governments felt that health-care should be totally financed by the Province. Hospital boards felt they must retain their right to levy taxes. Community health clinics in Regina and Saskatoon asked for a greater proportion of their costs to be financed by provincial grants. Several health-care agencies suggested that the possibility of coterminous boundaries for health-related activities and greater local rationalization of services be examined;
- (12) on several occasions, it was suggested that there was inadequate communication amongst local governments, provincial government agencies and taxpayers, and amongst local governments themselves.

CHAPTER III

MAJOR ISSUES AND PROBLEMS

The Commission received briefs and comments on numerous issues at the September Conference and the regional meetings. A brief overview of what the Commission heard is set out in Chapter II and a more extensive outline of issues, concerns and proposals is set out in Appendix 5.

This chapter sets out the major issues as seen by the Commission. Most other concerns and problems tend to be either part of or symptoms of these major issues.

1. Access to the Property Tax Base

The dominant issue raised at the fall conference and at the regional meetings was access to the property tax base. Numerous points of view were enunciated in regard to which services ought to be financed from taxes on property and which types of local governments ought to have access to the property tax base.

Some suggested that schools, hospitals and libraries ought not to be financed from the property tax because of what they considered to be inequities in the assessment system when used for "people-oriented services", the difficulty in getting a fair rural/urban division of tax loads, and the problems created by having more than one taxing authority occupying the same tax base. The proponents of this view suggested that autonomy of local governments is not dependent on having a local source of revenue. Some proposed that a provincially administered tax on basic income should replace revenues now generated by the school property tax.

Others stated that the property tax was of great advantage to local governments because it was a stable and predictable source of revenue, that a local property tax is required to ensure local autonomy, that a better reassessment system would alleviate many problems with the property tax, and that problems with the level of property taxes could be alleviated through increased provincial funding or an expanded system of property tax rebates.

The Commission noted the intensity with which views were held on this issue and the divisive effect the controversy had in regard to relationships among local governments and their organizations. The Commission also noted the wide-ranging considerations involved in the matter, the complexity of the

issues, and the several hundred millions of dollars which are currently being raised through the property tax for local government services. All of these factors make this issue of major importance.

The Commission heard and identified a wide number of issues and concerns in regard to local government finance. There are three particular issues which the Commission believes contribute in a major way, either directly or indirectly, to the issue of access to the local property tax base. These are:

- the lack of responsiveness of the property tax to fluctuations in the level of income on the part of those who pay the tax;
- inequities in tax loads among categories of taxpayers and sudden shifts in tax loads brought about by changes in assessment criteria and the infrequency of reassessments; and
- the particular financial pressures faced by some local governments arising from probable insufficiency of equalization in provincial grant programs.

Each of these issues is addressed separately in this chapter.

2. The Property Tax and Income Variations

One of the concerns most often expressed to the Commission about the property tax is its lack of sensitivity to a taxpayer's ability to pay the property tax in low income years. The Commission heard two major concerns expressed about the relationship between the value of property owned and a person's ability to pay property taxes:

- (1) the amount of property owned does not necessarily represent the wealth of a person because wealth can also be in the form of investments and personal property. Taxpayers could have substantial holdings in non-property assets and yet would pay property taxes based only on the real property they own. Taxpayers could own only property and pay a much greater percentage of their total wealth on property taxes than wealthier people who happen to have fewer assets in the form of real property. Two individuals with the same wealth but in different forms will spend quite different proportions of their total wealth on property taxes;

- (2) in addition to wealth, income is another measure of ability to pay. Even if the amount of property owned were a reasonable reflection of a person's ability to pay over the long-term, it is not sensitive to changes in income in the short-term. A most frequently voiced example of this discrepancy relates to farmers. Agricultural assessments are based on the long-term productive capacity of their land and, therefore, the ability of that land to generate income for the farmer. While this system may reflect ability to pay in the long-term, in any particular year it is not sensitive to swings in net farm income. Therefore, even in years when farmers make little or no income, the value of their property for assessment purposes does not change, and they still owe the same amount of property taxes as they would if they had earned an above-average level of income.

While farmers were most often used in examples of problems caused by short-term fluctuations in income, all taxpayers, including businessmen and wage earners, may face similar circumstances at any point in time.

In summary, it would appear to the Commission that a significant number of the problems and issues related to the property tax involve the relative burden of the tax amongst different categories of taxpayers and the income situation of the taxpayer. The problems arising from income fluctuations are particularly significant in an agricultural and primary resource economy like Saskatchewan where a number of factors outside the control of the Province can bring about substantial swings in income from year to year.

3. Assessments and Equity

During its consultative process, the Commission heard many concerns about the basis on which property is assessed. These concerns included the degree of equity amongst categories of property and between rural and urban municipalities, and the impact of reassessment on individual properties.

The Commission also noted a sense of frustration by many of the individuals and organizations in trying to understand the basis of assessment and the assessment process. Concerns were expressed about the uncertainty of who was responsible for assessments, who made the decisions on various aspects of the assessment base and to whom individuals or businesses with concerns or complaints could go regarding their individual properties or general concerns. In short, there appeared to be a major communication problem between those responsible for the

preparation of assessments, individual local government units, and property owners who, in the final analysis, pay the tax.

The underlying principle of assessment is equity. Many briefs compared individual property assessments to other properties, noted differences and questioned whether those differences were fair. In particular, the Commission heard from downtown business property owners who contrasted their assessment values to those of businesses on outlying commercial property or in malls and by individual businesses which compared assessments between different categories of business. The change in the emphasis on land values under the new assessment manuals drew criticism from those businesses such as car dealerships and implement dealers who use significant amounts of land in their business activity. Some businesses questioned whether or not the assessment system was biased against certain types of business activity and certain business locations.

Concerns were also expressed about the appropriateness of business assessments and the continuation of a separate business tax. Others expressed concern about the ongoing use of two different approaches to business assessment permitted by legislation in the Province. Questions were raised as to whether or not businesses require additional services from municipalities and, therefore, should pay more taxes to the municipality for those services. On the other hand, some briefs referred to the existence of a business tax in addition to the taxes paid by the owners of the business on the property and on his residence as evidence of double if not triple taxation.

Concerns were raised about the assessment of acreages. These acreages are typically small holdings of one-quarter section or less and occupied by either urban workers who have chosen to live in a rural setting or part-time farmers who have a major source of outside income. As a result, these acreages are assessed differently than a full-time farmer who may reside nearby. A farmer whose income is mainly from farming is assessed only for the land and not for the buildings on the property. By comparison, the resident of an acreage is assessed for both land and buildings. This results in a significant difference in property taxes payable for the two properties. The concern expressed by owners of acreages was that they should not be treated differently than other rural residents, since they received no additional services for their tax dollars.

Cottage owners argued that they should not pay school taxes on both their seasonal cottage property and their permanent residence located elsewhere. Since they could only send their children to school in one location, they questioned why they

should be paying school taxes on their seasonal property when they could not send their children to school within that school division. This was regarded as another form of double taxation. Cottage owners also expressed concern over the significant increase in assessment values for cottage properties as a result of the reassessment. Although cottage property has increased significantly in market value since the last reassessment, the cottage owners considered the increase in assessment to be out of line with other properties.

Property owners complained about the sudden shifts in the total assessment of a particular property and more fundamentally the appropriateness of some of these shifts caused by the reassessment program begun in 1976 and now being completed in the Province. There were dramatic tax increases caused by some of these shifts in assessments. Some property owners felt that as a result of the reassessment of their properties they were forced to consider relocating elsewhere within the municipality or to a neighbouring municipality for financial reasons.

The fairness of a uniform mill rate applied to urban and rural assessments within the school division was questioned by several groups. The position presented was that since rural assessments are related to the productivity of land and urban assessments include the depreciated replacement cost of buildings, the two assessment bases are fundamentally different and are, therefore, incompatible.

The Commission has concluded that the assessment of property and the reassessment process are major sources of the problems identified in the briefs presented. It is clear that major changes in approach are required to make the assessment of property understood and accepted.

4. Degree of Equalization in Grants

Equalization grants provide for greater levels of assistance to local governments with relatively low tax bases and lesser levels of assistance to more wealthy local governments, to enable them to provide similar levels of services at similar local rates of taxation.

The Commission heard, on a number of occasions, that provincial government operating and capital grant programs for school divisions, urban governments and rural governments do not provide sufficient equalization.

The operating and capital grant programs contain varying types and degrees of equalization. Some programs explicitly equalize fiscal capacity and/or need; others equalize implicitly.

A number of urban governments stated that the equalization components of urban revenue sharing are inadequate. Urban revenue sharing amounts to 36.1 mills on average, with the more wealthy communities receiving an equivalent of 20 mills, while the less wealthy communities can receive up to the equivalent of 120 mills. Some urban governments also expressed concern about the urban capital grants which are distributed on a per capita basis and do not, therefore, consider fiscal capacity or need. Some urban municipalities felt that capital grants should be distributed on a needs basis rather than by per capita allotments.

Rural revenue sharing grants contain an equalization component, but minimum allocations paid regardless of need or fiscal capacity reduce the amount that would otherwise be available to provide equalization to the less wealthy municipalities.

Some school boards were concerned about the declining share of education costs financed by provincial operating grants and the growing discrepancy between actual expenditures and recognized expenditures in the grant formula. This has resulted in school divisions having to self-finance the difference, which results in a higher burden in terms of mills on low assessment school divisions as compared to high assessment school divisions. School divisions are concerned about the resulting decline in equalization and the negative impact this has on equalizing educational opportunity for all students.

Few concerns were received about school capital grants since the local component of approved capital project costs consists of only the debenture downpayment with a 4 mill cap placed on the annual local contribution for all downpayment requirements. This ceiling provides a major degree of equalization since it allows school divisions with a low tax base to have facilities as adequate as those of wealthier school divisions.

The Commission believes that some variation in mill rates is legitimate and to be expected since such variations can reflect a differing level of needs and priorities as determined by the local government. On the other hand, the Commission is concerned if substantial variations in mill rates are due to differences in the ability to pay for a common level of services among local governments. If such differences are not overcome by equalization programs, then taxpayers do not have equality of access to a basic level of services.

For urban municipalities, it is difficult to judge how much of the variation in mill rates is due to local decisions which reflect different needs and conditions. Urban governments provide such a broad range of services and have such significant differences in population that a considerable variation in mill rates is to be expected to reflect these differences. However, some variation in mill rates is undoubtedly due to inadequacies in equalization.

The bulk of services that rural municipalities provide continue to be transportation-oriented and the Commission heard, on a number of occasions, that this will continue to receive high priority. Even with this common objective, some variations in mill rates can still be expected to occur. For example, more recently organized rural municipalities will need to spend more funds to build their basic road network compared to more established rural municipalities.

To the extent that all school divisions do provide the same programs, mill rates should be similar if equalization grants are performing ideally. While there are basic components to school programs which every school division must follow, there are also substantial differences in the level and breadth of school programming and in the way programs are delivered. The Commission believes that variations in mill rates due to these differences are legitimate and reflect local decision-making. Variations in mill rates that are not the result of local program decisions indicate inadequacies in equalization in the grant program and are of concern to the Commission.

The Commission has examined variations in mill rates for municipalities and school divisions by comparing the extent of variation of mill rates from their respective averages (Table 1). This analysis shows that in the southern part of the Province, mill rate variations are the most substantial for towns and villages. While a significant portion of this variation is due to large differences in population and levels of programs and services provided, it would appear that some of the variation is due to inadequacies in equalization. Mill rate variations for northern municipalities are significantly higher than for any of the local governments in the southern part of the Province.

The analysis also indicates a wider variation in mill rates for rural municipalities than should be expected since the major service that they all provide is transportation. The Commission believes that there may be inadequacies in the equalization component of rural revenue sharing. This could be due to the nature of the formulae that are used to distribute the funds amongst the municipalities. It may also reflect the

level of funds being allocated to revenue sharing. The higher the proportion of local government costs covered by grants, the easier it is to bring about equalization.

Mill rate variations are the lowest for school divisions. A large part of this variation is likely due to variations in programs and program delivery. However, the Commission is concerned about any mill rate variations which are due to deficiencies in the equalization aspect of the grant formula.

In summary, the Commission believes that some variation in mill rates is acceptable and to be expected to the extent such variations reflect local decisions about the type and levels of service offered. The Commission is concerned about variations which may be due to inadequacies in equalization in the various grant formulae. Insufficient equalization can put additional financial pressures on some local governments adding to the concerns over the property tax and the services it is used to finance.

5. Property Tax Rebates

All provinces currently have one or more programs which provide property tax relief in the form of either a grant, rebate, tax credit, tax deferral or tax exemption. In Saskatchewan, there currently are four programs: the Property Improvement Grant, the Senior Citizens School Tax Rebate, the Renters Property Tax Rebate, and the Home Quarter Tax Assistance Program. Together the four programs total an estimated \$94.9 million in 1984-85.

Although the Commission did not hear comments from the general public regarding property tax rebate programs, it noted a widespread negative attitude by local governments toward those programs. A commonly expressed concern was that the programs were politically motivated to make the provincial government look good by giving money to property owners and renters and, by implication, making local governments look bad for the level of property taxes imposed. Most local governments believe the objective of tax relief could be better accomplished by giving the money directly to local governments through increased grants which would allow each local government to lower its mill rate.

Rebate programs were deemed to be too costly to administer, inequitable because many people who receive rebates do not really need them, and generally are a poor use of tax dollars.

The criticism of the administrative cost of the program leads to suggestions that the program should be administered locally or that the elimination of the program would save millions of

dollars. The Commission's research shows that for 1984-85 the estimated cost of administering the four rebate programs is \$1.2 million, or 1.3% of the total value of the rebates.

All Saskatchewan residents who own property or who rent are, subject to some restrictions, eligible to apply for a rebate or grant. This feature of the programs was criticized because it provides funds to many people who do not need assistance.

Under the Property Improvement Grant and the Home Quarter Tax Assistance Program a farmer can receive more money than total taxes paid. This situation occurs for non-senior citizen applicants with small farm holdings and where the school taxes are greater than the municipal taxes.

Under the Property Improvement Grant, Senior Citizens School Tax Rebate, and Home Quarter Tax Assistance Programs, the applicant must pay property taxes before December 31st in order to qualify for the grant or rebate. However, the value of the rebate programs in encouraging individuals and businesses to pay their current year's taxes before December 31st was questioned by many local governments. Because interest rates charged as penalties for late payment and discount rates offered for prompt payment of taxes are generally restricted by legislation and are relatively low compared to the current cost of borrowing money, some people have consciously delayed payment of their property taxes and have effectively borrowed money from the local government at an artificially low interest rate.

Several suggestions were advanced to resolve this problem. One proposal was to advance the deadline for paying taxes in order to qualify for the rebate programs. Another proposal was to give local governments greater autonomy to set their own penalty and discount rates. The Urban Municipality Act, 1984 already gives urban municipalities the power to set their penalty and discount rates, but similar powers do not exist for rural municipalities.

During the meetings with local government organizations and individual local government units, the Commission observed that the redistributive effects of the rebate programs were not widely known. The fact that there is a flat maximum rebate payable means that in relative terms, the rebate has a greater benefit for owners of small property holdings relative to owners of large property holdings. Similarly, if there is a positive correlation between property ownership or rental accommodations and income, the rebates also are of greater benefit to lower income property owners and renters compared to higher income individuals.

Table 2 illustrates the redistribution effects of rebates for various categories of taxpayers in selected different municipalities. The tables show that the proportional benefits to taxpayers decrease as total taxes increase which, assuming property ownership is a measure of wealth, means that less wealthy taxpayers benefit more from rebates than those who are more wealthy.

In summary, the Commission heard criticisms that the rebate programs are not effective and that the money could be better spent. The Commission also noted that the current programs do provide a degree of income redistribution but that these redistribution effects are not widely known or understood.

6. Capital Funding

Urban municipalities emphasized three main areas of capital need. First, they stressed there will be major expenditure requirements to repair or replace the aging urban infrastructure of roads, streets, and water distribution and sewer collection systems. Second, there will be major water and sewer expenditures required to provide and to deliver an adequate supply of quality water and to ensure the safe treatment of sewage. Third, there are periodic and unique capital expenditure projects which are beyond the financial capability of individual municipalities.

Urban municipalities expressed concerns about the uncertainty of unconditional provincial capital assistance. The Community Capital Fund Program which provides \$100 per capita over five years is scheduled to expire after March 31, 1985. An on-going unconditional capital grant program was requested in order to give stability and predictability to provincial capital assistance.

There was also support for discontinuing several conditional capital grant programs and creating a pool of capital funds which would be available unconditionally. In this way, it was argued that urban governments would have greater autonomy in setting local priorities for capital expenditures.

Future municipal capital requirements for water and sewer systems are unclear. The future role of the recently-established Saskatchewan Water Corporation and the nature and extent of its involvement in the financing, construction, or operation of water and sewer systems is uncertain. Municipal expectations of greater provincial assistance, co-ordination, and involvement in this area appear to be high.

Rural municipalities expressed the need for an unconditional capital grant program similar to the Community Capital Fund for urbans. Rural municipalities indicated that the rural share of the cost of any shared facility with urban municipalities, for example nursing homes, fire halls, or community halls, is paid out of general municipal revenue, while the urban municipality can finance up to 60% of its share of the cost by using the Community Capital Fund grant. In addition, rural municipalities expressed the need for more money for road construction equipment.

School divisions indicated their general satisfaction with the current school capital grant program. Library boards expressed a desire for a capital grant program for libraries.

The Commission believes the nature and effectiveness of provincial capital assistance programs in meeting the current and future needs of local governments are substantial issues.

7. Public Sector Fiscal Imbalance

For 1984-85, the latest estimates indicate that the federal deficit will be approximately \$35 billion on a total budget of approximately \$100 billion. Out of each dollar of expenditure, the federal government is borrowing approximately 35 cents to meet the shortfall in revenues.

With the exception of the Province of Alberta, every Province in Canada faces a deficit situation as well. The Commission notes that the average per capita deficit of the provincial governments is about one-third that of the federal government, but the deficits are sizeable and of major concern. For 1984-85, Saskatchewan's budgeted deficit is \$267 million. While Saskatchewan's deficit is among the lowest of any Province in Canada, a deficit of this magnitude still must be of major concern.

The local government sector reports no large deficits. This balance between revenues and expenditures in the local government sector does not mean that local governments are not faced with financial pressures. It simply reflects the fact that municipalities and school divisions are not legally empowered to budget for deficits.

The Commission has three observations to make in connection with the overall public sector imbalance between revenues and expenditures. First, the magnitude of current deficits is much greater than the deficits in the preceding three decades. Current deficits are of such magnitude, particularly at the federal level, that even using relatively optimistic assump-

tions regarding possible rates of future economic growth, it will be difficult to eliminate the federal deficit. Similarly, at the provincial level, it would seem to require some rather optimistic circumstances to prevail before the budget could be expected to come into balance over the next half decade. In short, federal and provincial governments are likely to feel the necessity of finding ways to increase revenues and/or reduce expenditures in a substantial way.

Second, the Commission has noted that federal government assistance to local governments has declined over the years. Programs such as the Neighbourhood Improvement Program and the Community Services Contribution Program, which were primarily for municipal infrastructure projects, have been discontinued. The provincial government provides substantial contributions to local government for operating and capital purposes.

Third, the Commission recognizes that the public sector fiscal imbalance of senior governments may have implications for all programs, including those for local governments, since senior governments will likely undertake a vigorous examination of their priorities.

8. Sharing of the Property Tax Base

During the course of the Commission's consultative process, it was evident that there is considerable tension between different types of local governments over their joint occupancy of the property tax base. The Commission heard dissenting views over the use of property taxes to finance various local government services. Concerns were expressed that property should pay for property-related services and not for people-related services such as education, health-care, libraries, and social services which, some would argue, do not enhance the value of property.

Concerns were also expressed about one local government setting its mill rate in advance of the other. The local government setting its mill rate last may find itself unable to set the rate at the level it feels is required because of a concern about the overall level of local taxation or the overall rate of increase.

The Commission also heard criticism of excessive increases in expenditures by some categories of local government. The Commission's analysis indicates that expenditure increases by the various categories of local government have not been out of line with each other. Over the period 1971-1982, the compound average annual rates of increase of gross operating expenditures by each type of major category of local government were as follows:

urban municipalities	14.9%
school divisions	12.8%
rural municipalities	10.9%

While some tension is healthy and leads to more effective and efficient management of scarce resources, the Commission is concerned about the level of tension that exists between some municipal governments and school boards over access to the property tax base. The Commission perceives inadequate communication in a number of instances between local governments. A number of local governments sharing the same tax base do not seem to communicate with each other about their plans and required funding for the upcoming year before mill rates are set. They also do not appear, in many cases, to communicate adequately with their common taxpayers about services provided and funds required by each local government in the area. This leads to confusion as to who is responsible for programs, decisions and property tax increases, and lessens the accountability of each local government to its electorate.

The Commission also heard some concerns about the setting of the local contributions for regional libraries. However, the Commission noted that library boards do appear to make considerable effort to seek input into their budgetary process and all participating municipalities have an opportunity to be part of the decision-making process on the amount of local levies required.

A possible source of lessened or misplaced accountability arises from the fact that municipal governments collect not only their own property taxes, but also those levied by other local taxing authorities. Many municipal governments contend that they are then held accountable by the taxpayer, not only for their own levies, but also for the total taxes levied.

Concerns were also expressed to the Commission about a lack of communication between local governments about reductions in tax collections due to discounts, abatements and exemptions. While urban municipal governments have the sole authority to make such decisions, rural municipalities are required to obtain approval for such decisions from both the affected school boards and from the Minister of Rural Development.

On a more positive note, the Commission did hear about several instances where different types of local governments have pooled their resources to achieve a common goal. This was evident with respect to the sharing of facilities, where two or more types of local government would build a joint facility at less cost than if each had built their own facility.

At the September conference, the Commission heard a number of positive responses from the five major local government organizations on the importance of better communication and co-operation. The Commission also heard about several situations where local governments hold pre-budget consultations prior to the setting of mill rates and have a healthy degree of mutual respect for each other. The Commission is greatly encouraged by these voluntary efforts at co-operation.

9. Northern Governments

Northern Saskatchewan poses a unique set of problems for local governments. The recently established northern municipalities face the difficult growing pains of learning the operation of municipal government, of learning the mechanisms for being accountable for their actions and in meeting, as best as possible, the local needs of their residents. Southern local governments may take for granted "local governance" and have an established history of providing certain services to their residents, but this is part of the development and the challenge of local government that faces the northern municipalities.

The Northern Municipalities Act, under which northern municipalities (towns, northern villages, and northern hamlets) are incorporated, was modelled after southern municipal legislation. While there are unique northern components of the Act, many of the powers and duties of northern municipal councils are comparable to southern councils. Some of these powers and duties were handled previously by the former Department of Northern Saskatchewan. Local community authorities and local advisory boards which preceded formal local government exercised some local powers and duties. However, in general, northern municipal governments face new aspects of local government and may want to do things or provide certain services or facilities, but may not have the full range of desirable experience or the financial resources.

Representatives of northern municipalities expressed concerns over the limited tax base to finance local government, the cost of providing services in the north, the magnitude of future expenditure requirements, and the need for northern control over future economic development.

Without an adequate tax base, local government either becomes heavily dependent on senior government transfers or cannot provide necessary services and facilities to its residents. The limited tax base available to northern municipalities is a major difference between northern and southern municipalities.

Table 3 shows the per capita assessment of northern municipalities and northern settlements relative to the average for comparably-sized southern municipalities. Northern communities with a population of 500 or over have an average assessment per capita of \$962 or 49.3% of the average per capita assessment of comparably-sized southern municipalities. For smaller population communities, the difference is even more striking, with northern assessments per capita of only \$365 or 19.2% of southern centres.

The lack of an adequate tax base to finance local services is compounded by the relatively higher cost of providing services in Northern Saskatchewan. Because supplies must be flown into isolated communities or shipped by truck over long distances to other centres, the cost of materials is significantly higher than in the south. Northern geography also adds to the cost of construction. For example, constructing a water and sewer system in an area of solid rock is very expensive.

The northern revenue sharing program and the northern capital grant program do provide more money per capita to northern municipalities compared to equivalent southern urban revenue sharing and the community capital fund programs. Northern municipalities receive \$279.27 per capita on average under revenue sharing compared to \$94.36 per capita for southern urban municipalities. The northern capital grant of \$250 per capita over 5 years is 2.5 times the \$100 per capita southern grant. In addition, the maximum provincial share of eligible capital costs is 90% in the north compared to 60% for the southern program.

While the northern grant programs recognize the relatively small northern tax base by providing more money per capita compared to southern grant programs, the Commission is interested in whether or not the additional grant funding is sufficient in closing the relative fiscal imbalance.

The Saskatchewan Association of Northern Local Governments requested that a share of provincial resource revenue generated by northern mining activity should be retained in the north for use by northerners. More specifically, the Association suggested that one percent of uranium royalties should be deposited into a fund administered by a northern body for distribution to northern communities. This approach, they argued, would address the problem of a limited tax base and would give northern governments the ability to meet northern needs and to better control their economy.

Northern municipal councillors have a strongly-held view of local government as an active participant in economic develop-

ment. They regard local government as an instrument to put in place the necessary businesses and jobs for northern residents. This approach follows in part from their desire to ensure that the benefits from development accrue to northerners. It also follows from a deep sense of frustration in regard to extremely high levels of unemployment, the many social problems that tend to follow the condition and what they regard as a lack of understanding and commitment on the part of provincial governments and southerners in general.

10. Health Delivery and Funding

During the consultative process, hospital boards consistently stated the need for access to a local source of revenue. Religious hospitals asked for the same right to levy property taxes as union and municipal hospitals now possess.

The Commission also heard concerns about the allocation of local hospital costs among municipalities and the level of the Hospital Revenue Tax. This tax is set at two mills for municipalities which do not belong to a union hospital district. The current average union hospital levy for participating municipalities is about six mills.

The multiplicity of health-care agencies, including hospitals, nursing homes, ambulance boards, public health and home care boards, each with their own district boundaries and boards, raised questions about the setting of priorities, overlapping boundaries and accountability to the local taxpayer.

The Commission agrees with the objective of an efficient and effective health-care delivery system which meets the needs of all Saskatchewan residents.

CHAPTER IV

AUTONOMY AND ACCOUNTABILITY

An understanding of the nature and purposes of local governments is of obvious importance to comprehending and dealing with the many issues that pertain to their funding. At the September Conference and at the regional meetings in October and November there was frequent discussion of the concepts of autonomy and accountability.

The Commission has concluded that these two concepts are central to the principles of local governance and that they warrant particular discussion. The conclusions of the Commission in regard to these concepts provide an important context for the entire report.

Autonomy Defined

Autonomy may be defined as the state of being self-governing, of being independent and of being self-directed or free from outside control. The Government of Canada and the governments of the Provinces of Canada can be regarded as autonomous governments, each operating within a set of powers and responsibilities set out in our constitution. No other government or authority determines the powers and duties of our federal and provincial governments. This is not to say that there are not practical constraints on what any of these governments may choose to do.

No local government is fully autonomous in the same sense as the federal or provincial governments. Local governments are creatures of their respective provincial governments. They owe their duties, their powers and their very existence to the provincial governments which, through the enactment of legislation, have established systems of local governance. Essentially, local governments have as much autonomy as the respective provincial governments decide they should have.

Autonomy, in regard to local government, relates not to absolute independence or rights of self government, but to the degree to which provincial governments permit local governments to exercise self-direction.

Importance of Autonomy

Provincial governments establish local governments for a variety of reasons. One reason is that it is more cost-efficient for certain services to be delivered on a decentralized basis,

rather than on a province-wide basis where more extensive administrative structures would be required. Variations from community to community in circumstances impact on how services can be best implemented. Diseconomies in certain larger scale operations, and a heightened degree of accountability on the part of local administrators and elected officials who are close to those they serve also contribute to the efficiency of locally delivered services.

Local governments exist primarily because desires for levels and mixes of services vary from area to area and smaller administrative units are better able to give recognition to and respond to those variations than a province-wide administration which would tend to implement a common level and mix of services.

It is quite apparent that if the advantages of local governance are to be realized, those governments must have a reasonable degree of independence to make good administrative decisions that reflect the reality of the local circumstances and to conform to the particular desires of the community in regard to types and levels of services. If local governments are encumbered with excessive limitations on the amount of administrative and policy discretion they can exercise, the inherent advantages of local governance can be largely negated. An appropriate degree of independence is necessary to allow local governments to effectively perform the role for which they are created.

In short, the Commission believes that a high degree of autonomy is very important to the optimum functioning of local government.

Determinants of Autonomy

The factors which determine the amount of autonomy enjoyed by local governments include the nature of legislation, the type of provincial funding, total funding available and access to a local source of revenue.

Legislation

The provincial statutes set out the duties, functions, scope, and powers of local governments. Generally, the broader the legislated responsibilities, the greater the level of autonomy. As well, the legislation may set out mandatory duties and responsibilities or it may set out a series of permissive functions, functions which the local government may or may not choose to undertake.

Similarly, the statutes may determine the expenditure requirements of local governments; the revenue sources which local governments may use; the procedures which local governments must follow in conducting their functions; and the standards to which local governments must adhere. The extent to which each of these is specified largely determines the amount of independence and autonomy enjoyed by local governments.

The provincial government has established quasi-judicial bodies which make decisions for local governments or review local government decisions. For example, boards of reference may hear appeals from teachers who have been dismissed by boards of education and may render binding decisions in this respect. The Local Government Board makes the final decision as to whether a local government may undertake long-term borrowing. The greater the number of such bodies which oversee the work of local governments or make decisions for them, the lesser the amount of autonomy for the local government in question.

Statutes or regulations may place limits on the rate at which local expenditures or local tax levies may grow. Such measures have obvious implications for the autonomy of local governments.

Provincial Funding

The nature of provincial government grant payments to local governments affects their autonomy. Grants paid unconditionally generally protect the ability of local governments to make their own decisions because those decisions have no impact on the payment or level of the grants. Conditional grants are intended to influence or even control the decisions of local governments in particular areas and, hence, impact negatively on the autonomy of governments.

To illustrate, the school capital grant program is highly conditional and leaves little or no autonomy to the school division. On the other hand, the community capital fund grant for urban municipalities is unconditional and provides a high degree of local autonomy to individual municipalities to set their own priorities and to allocate the funds to capital projects of their own choosing.

In the area of provincial operating grants, nearly 99% of urban revenue sharing grants are paid unconditionally and thereby provide for a maximum of local autonomy in terms of how the funds are used. School operating grants and the "global" or "block-funding" operating grants provided to hospitals are other examples of provincial payments which are largely unconditional and which promote local autonomy. Nearly 65% of

rural revenue sharing grants are largely conditional and are tied to the construction of particular types of roads and bridges to provincially-determined standards. There is a considerably lesser degree of local autonomy in connection with this type of payment, although it should be noted that the conditions under which the grants are paid largely meet the approval of rural municipalities.

Two types of concerns have been expressed about possible negative implications for local autonomy when provincial grants represent a high proportion of total local government revenue. One concern is that even though grants may be unconditional initially, the Province may be tempted at later times to insist on some say on how "its" monies are being utilized. The second concern is that the higher the proportion of total revenue accounted for by the provincial government, the greater the impact on local government of provincial decisions on the amount of change in grant levels from year to year.

Adequacy of Funding

Local governments also require an adequate amount of total funding to effectively exercise their local decision-making authority. Without the necessary funding, they are unable to meet the demands of their taxpayers for services and programs. For example, northern representatives contend that, while new legislation has provided them with a number of new powers and responsibilities, they are unable to exercise these powers due to a lack of total funds available.

Local Source of Revenue

Access to a local source of revenue is critical to the autonomy of local governments. Local governments having no access to local sources of revenue and being completely reliant on provincial funding may have considerable latitude for local decision-making if they receive their grants unconditionally. That is, they may have considerable autonomy to make decisions on priorities within the level of spending determined by the Province. However, they are not autonomous in regard to the level of total expenditures. Residents of some areas of the Province may desire a higher overall level of services than other areas of the Province and may be prepared to pay the additional local cost involved. Without a local source of revenue, the power to determine overall levels of services is in the exclusive hands of the provincial government and there is no local autonomy in this particular regard.

The Saskatchewan Health-Care Association has indicated that while they have an open mind as to the possibility of other

forms of local taxation besides the property tax, they believe that having the right to levy local taxes serves as a "safety valve" for hospitals faced with costs rising faster than their provincial funding and that it accommodates local initiative by permitting programs to be extended beyond the minimum standards set by the provincial government. Officials of one Union Hospital spoke about the establishment and operation of a cardiac care unit in their hospital as an example of a local choice for a service not covered under provincial funding; they indicated that they would have preferred to have the Province fund the service, but that it was of sufficient importance to the local residents that they were prepared to pay the cost on their own, if necessary. If there were no access to a local source of revenue, this type of decision could not be made and a corresponding element of local autonomy would be absent.

The Saskatchewan Library Trustees Association also spoke about autonomy in local decision-making and their preference to retain the present taxing structure.

Local tax rates for education generally range from a low of 90 mills to a high of 139 mills in 1984. This has been described as an illustration of the extent to which priorities regarding the level and mix of educational services and the resources allocated to those programs and services, vary from school division to school division.

School divisions provided two examples of local decisions regarding type and level of service. One division incurs several mills of additional cost in order to provide an extensive school band program which most divisions do not provide. Another school division has decided to keep several smaller schools open rather than centralize as most divisions have, and has incurred what the school division officials estimate to be 14 mills of additional local cost as a result of that decision.

If local governments were not to have a meaningful local source of revenue and had to rely solely on provincial funding, decisions like those described in the foregoing examples could not be made. If a local government desired to have "extras", it could have them only if it made reductions in other areas, thus putting limitations on what would be practical to do. On the other hand, if the ratepayers of a local government were satisfied with a lower level of services than that which was supported through provincial grants, there would be no incentive for expenditures to be reduced or maintained at a lower level because there would be no means of passing on the savings to the local taxpayer in the form of a lower tax rate.

In short, the Commission has concluded that having access to a meaningful local source of revenue is critical to the autonomy of local government. Whether that local source of revenue must be the property tax or whether it could be some other source of local revenue, however, is an area where the Commission believes further research and discussion is required before it would be appropriate to reach a conclusion.

Provincially-Determined Limits on Local Autonomy

There are several ways in which provincial governments can affect the amount of autonomy of a local government. Some of the reasons why provincial governments put limits on local autonomy are as follows:

- the provincial government may desire to have a certain degree of uniformity in the level or standard of services throughout the Province. For example, school divisions are required by legislation to provide certain basic curricula and employ only teachers who have qualifications set out in regulations. Rural municipalities are required, as a condition of eligibility for grants, to build certain roads to specified standards and in specific locations, in order to meet the objective of having a uniform intermunicipal network of roads;
- smaller local governments may not be in a position to employ personnel with expertise or particular knowledge in certain areas, and for this reason are not empowered to make certain decisions on their own. For example, the Local Government Board must review and approve all proposed long-term borrowing by local governments before they may actually undertake such borrowing, presumably in large part because the Board has expertise which most individual local governments are not likely to have;
- decisions by one local government can have either a positive or negative effect on adjacent local governments. In an effort to ensure that the collective interests of all local governments are best served, certain decisions are not left with individual municipalities. Provincial regulations are, therefore, put in place which limit the types of decisions which an individual municipality may make so as to better ensure adherence to decisions reflecting the overall public good. For example, the dumping of raw sewage into an adjacent municipality may be a suitable way of handling a situation from the narrow standpoint of the first municipality, but from the collective standpoint of all municipalities, this would likely be an inappropriate decision.

The Commission believes that although a high degree of autonomy is very important to the optimum functioning of local government, there are desirable and necessary limits to that autonomy for the overall public good.

ACCOUNTABILITY

Accountability Defined

Accountability relates to a person, group, or organization being answerable or responsible for the performance of entrusted duties or functions, or the furnishing of analysis and providing explanations to justify performance.

In the local public sector, accountability usually relates to the answerability of the local government to the electorate, the taxpayer or the beneficiaries of public services. Accountability may be in terms of the quality or quantity of services rendered, the level of taxation and/or the efficiency with which the monies were expended.

Some Assumptions Underlying Accountability

The concept of accountability assumes that there is either an explicit or implicit contractual arrangement between the person or group that is responsible for making decisions and "delivering" performance on the one hand, and the person or group for whom decisions are being made or for whom services are being provided on the other hand.

It is assumed further that better performance will result in situations where accountability exists. Positive consequences result from good performance and negative consequences from poor performance. For an elected or appointed body in the public sector, the consequences of performance may be reflected in commentary from the electorate in the form of telephone calls, letters or personal conversation, but the ultimate consequence is expressed at the elections, when perceived performance is reflected in re-election or defeat for those who have been holding office.

Requirements for Accountability to Work Effectively

In order for accountability to be translated into positive performance, it is essential that there be an understanding of expected functions and performance criteria on the part of those elected to perform duties and those receiving services.

In the case of the public sector, a well-informed electorate which understands the functions of government and an understanding on the part of the elected official regarding the needs, desires and expectations of the electorate are more likely to bring about better performance than an uninformed electorate or elected official.

Accountability requires effective and frequent communication between the government and the governed. In the public sector, elected officials have the responsibility to explain programs, policies and decisions; to keep in touch with the electorate; and to make decisions based on what is feasible and desirable. An ongoing process of communication is more likely to result in a better match between public desires on the one hand and actual performance on the other hand, than a situation under which the communication only takes place at election time.

The Commission has been made aware of a number of circumstances under which accountability does not appear to be as strong as it could be. One example has to do with the concerns of individual citizens about the taxes they pay. On many occasions, the Commission heard from municipal governments which stated that citizens expressed their concerns and frustrations about local taxation to the municipality, when those concerns should have been expressed in many situations to the school divisions or other local taxing authorities. The Commission was advised that the local taxpayer is typically concerned about the "bottom line" or the overall amount of his local tax or its rate of increase, and that he is generally unaware of the breakdown of the overall burden or the different rates of increase in the various components of the local tax.

Concern was also expressed that the members of regional library boards and union hospital boards are appointed by the participating municipal councils rather than elected as in the case of municipal councils or school boards. The person appointed can either be a member of the municipal council or another citizen. The taxpayer is unable to hold the appointed board member accountable in the same way as he can hold a municipal council or a school board accountable because he lacks the ultimate recourse of being able to vote the person out of office. In the case of regional library boards, the concern was also identified that it is difficult to hold an individual board member accountable when he is but one member of a very large board of 100 or more members. In such cases, an individual board member may have minimal impact on board decisions.

The Commission has not, as yet, had the opportunity to fully assess the nature of the autonomy and accountability required

by library and hospital boards in order for them to function effectively.

Conclusion

The Commission is committed to the concepts of autonomy and accountability for local governments. If local governments are to be strong and if they are to fulfil the purposes for which they are created, they must have a high level of autonomy and they must be fully accountable. If local governments are to be autonomous, they must have a reasonably broad, unrestricted and discretionary mandate set out in legislation; a meaningful local source of revenue; adequacy in overall revenues; and largely unconditional funding from senior governments.

If local governments are to be accountable, they must be visible, sensitive and responsive to their constituents; develop effective communication strategies; and accept responsibility for their decisions.

CHAPTER V

FRAMEWORK FOR FUTURE DIRECTIONS

The Commission has been given a two-year mandate and is required to submit its final report by June of 1986. The Commission will require this two year period to deal with the large number of complex issues it has been asked to examine. Because of the fact that the Commission has been in operation for just over one-quarter of its intended lifetime, the Commission is not in a position to present an analysis of all of the major issues at this time.

At the same time, however, the Commission welcomes the request of the Government of Saskatchewan for the submission of interim reports. It is a positive indication that the Government is prepared to consider possible changes sooner than would be the case if the Commission were to wait for its final report before any reporting was undertaken.

The chapter to follow sets out a framework within which the Commission's commentary can be considered, and sets out a philosophy or a direction which will govern the work of the Commission over the remaining eighteen months of its mandate. It is more of a conceptual framework and a set of philosophical underpinnings than a list of detailed and specific conclusions or recommendations.

1. Strong Local Government

Each of our communities has a distinct character. Each community has a different set of views in relation to the type of services which are desired, priorities among different types of services, the level of taxation which is considered reasonable to support those services, and the kind and extent of local laws that should govern its citizens. It is the existence of these inter-community differences that forms one of the primary purposes of having local government. If individual local governments have the ability to make their own decisions, there is a far greater opportunity to meet the needs and desires of each community than would be the case if the provincial government were to make those decisions. The Commission strongly subscribes to the philosophy that wherever possible, local people should be allowed to direct their own affairs through a strong and independent local government structure.

In a democratic society, it is important that governments be accountable to the people they serve. Local governments, by

virtue of the fact that they cover a smaller geographical area, have some inherent advantages in regard to accountability. Locally-elected representatives and appointed staff as well as the services provided are generally better known to local people than are the officials and programs of senior governments. Direct contact promotes accountability.

While some services no doubt benefit from economies of scale and are more efficiently delivered on a larger scale, there are other services which can be more efficiently delivered on a smaller scale. The avoidance of the overhead costs of large administrative structures and the ability to take into account local circumstances provide local administration with some advantages over a more central administration.

If particular local desires are to be reflected, local governments must have the independence or autonomy to make their own decisions and for those decisions on types and levels of services to vary from community to community. In turn, this means that provincial legislation creating local governments must provide sufficient local discretionary powers. Provincial grants should be largely unconditional so as to impinge as little as possible on the effective choices available to local governments. Most importantly, those local governments must have access to a meaningful source of local revenues.

It is also apparent that local governments must have adequate revenues if they are to be strong and viable. No doubt there are different views on what constitutes "adequate" funding and these views may vary somewhat in response to general economic circumstances. Many local governments have a sizeable local tax base and could be largely self-sufficient in generating the levels of revenue required for local services. Other local governments do not have a sufficient local tax base to ensure viability on their own and rely more on provincial assistance. The existence of equalization grants reflects an acknowledgement on the part of the provincial government that the local tax base varies considerably from community to community and that proportionately more in provincial grants is required for the local government with the lower tax base so as to provide adequate overall funding.

In short, the Commission is firmly in support of strong local governments which are capable of reflecting and responding to the unique desires and needs of our various communities. To be strong, local governments need a sufficiently broad legislative mandate, a large element of unconditionality in provincial funding, an adequate level of overall funding, and a meaningful source of local revenue.

2. Continued Reliance on the Property Tax

Although there are many different opinions on the fairness of the property tax, the services it should fund, and the types of local governments that should have access to the property tax base, the Commission has concluded that property taxes will continue to be a major source of local government revenue into the foreseeable future.

The Commission has several reasons for coming to this conclusion. First, from a pragmatic point of view, the magnitude of the amount of monies generated by the property tax means it is very unlikely to be replaced. In 1982, for example, the property tax generated approximately \$575 million, and this is second only to the personal income tax which in the same year yielded \$683.2 million. Corporate income tax yielded \$87.3 million and the retail sales tax yielded \$312.0 million in the same year. It is possible to shift the relative load from one tax to another tax, (see Table 4 which shows the additional revenues which can be obtained from increases in various provincial taxes). However, it is unlikely that a provincial government would wish to increase any of its taxes by the major amount which would be required to replace the property tax, thereby putting its tax structure out of line with other Provinces (Table 5).

Second, although weaknesses are no doubt present in property taxes, no tax is perfect. Current discussions relating to the income tax, which is most often referred to as the most fair tax, illustrate the point. Many people with very high incomes are able to arrange their financial affairs so as to avoid paying any personal income taxes, and thus giving rise to discussion about the possibility of the federal government instituting a minimum tax for persons with incomes over a certain level. The question is whether in a situation where no tax is perfect, overall equity would be improved by eliminating one tax and greatly increasing another. It would seem to the Commission that overall equity is more likely to come about if a mix of taxes is used and if no one tax is relied upon excessively.

Third, contrary to general public perceptions, the property tax is currently relied upon to a relatively lesser extent now than it was in the past. For Canada as a whole, property taxes provided two thirds of the total revenue of local governments

in 1960, whereas by 1977, this proportion had declined to one third.¹

Comparing property taxes among Provinces, Saskatchewan's property taxes per capita were less in 1980 than in any other Province west of Quebec. In 1968, property taxes in Saskatchewan were above the Canadian average (\$132.77 vs \$122.49) but, by 1980, Saskatchewan residents paid less in property taxes per capita (\$342.37) than the Canadian average (\$352.67) (Table 6).

It is interesting to note the trends in Saskatchewan in regard to property taxes and income taxes expressed as a percentage of Gross Domestic Provincial Product (G.D.P.P.). In 1968, property taxes amounted to 4.88% of G.D.P.P. but by 1980, had fallen to 2.90%, a reduction of about 41%. Personal income tax, on the other hand, rose from 6.93% of G.D.P.P. in 1968 to 9.19% in 1980, an increase of about 33%² (Table 7). In absolute terms, both property taxes and personal income taxes rose over the 1968 to 1980 period, but as a percentage of what might be termed our total incomes in Saskatchewan, property taxes have declined by 41% and personal income taxes rose by 33%. Most often, when a major reduction or elimination of property taxes is contemplated, the thought is that they would be replaced with income tax. Considering the shift that has already been made to income taxes, the Commission questions the advisability of a further shift of the major proportions that would be required to eliminate all or even most of the property tax. Quite apart from other considerations, increases in income tax of major proportions are likely to result in questions being raised about the impact on individual initiative and incentive and the competitive position of Saskatchewan in relation to other provinces in terms of attracting new and retaining existing professionals and businesses, particularly those which have a reasonable degree of mobility.

Fourth, there have been a number of suggestions of possible additional sources of local revenue such as hotel occupancy taxes or a local tax on fuel, sales and fire insurance premiums. The Commission will be pursuing further the possibilities of some of these taxes, but notes that the probable magnitude of the revenues generated from these particular taxes would not permit them to be replacements for the property tax.

¹Bird & Slack, Urban Public Finance in Canada (Butterworths, Toronto, 1983), pp 60 - 61.

²Harry M. Kitchen, Local Government Finance in Canada, (The Canadian Tax Foundation, Toronto, 1984) pp 396 - 397.

In short, it is the view of the Commission that the property tax will continue to be a major source of financing local government in the future. The question of what services should be financed from the property tax and which local governments should utilize the property tax are separate questions.

3. New Refundable Income Tax Credit

As noted earlier, concerns were expressed about the insensitivity of the property tax to changes in a person's ability to pay the tax, especially in low income years. The Commission regards this insensitivity as a fundamental issue which underlies much of the criticism of the property tax as a means of financing local government. The Commission believes that property taxes will continue to be a major source of revenue for local governments and that efforts should be directed at making the tax more equitable and more responsive to a person's ability to pay.

One way to address this issue would be to more closely relate the effective taxes payable to current income. The Commission believes that an income-related property tax rebate program would address many of the concerns about the difficulty some taxpayers face in paying property taxes during periods of low income. An income-related rebate program would recognize the need for greater tax relief in these circumstances and would direct more money to those people who really need it. Others, whose incomes are significantly higher, would receive reduced or no benefits.

The Commission believes that by relating the rebates to income, the regressivity of the property tax for low income earners would be reduced and, perhaps, the tax would become proportional or progressive over certain income levels. The redistributive effects of the existing property tax rebates would also be enhanced by increasing the rebate payable to lower income earners compared to the rebate payable to higher income earners. The Commission is of the view that the purpose of the rebate programs also would be more clearly identified and understandable to the public and local governments alike if it were calculated in this manner.

Although there are several ways of relating the amount of the rebate to income, the Commission recommends the implementation of a refundable income tax credit to replace all four existing rebate programs: the Property Improvement Grant, the Senior Citizens School Tax Rebates, the Renters Property Tax Rebate and the Home Quarter Tax Assistance Program. This refundable income tax credit would be administered through the income tax

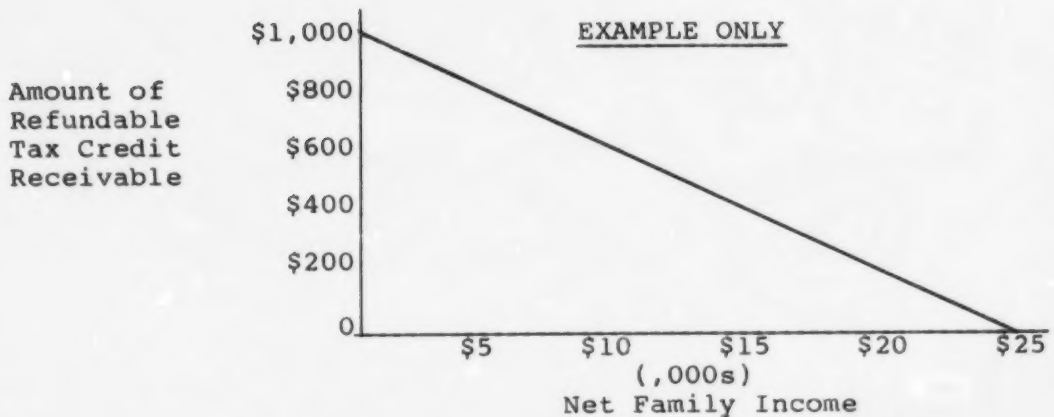
system and would effectively form part of the individual income tax return.

By making the tax credit refundable, a Saskatchewan resident with no provincial income tax payable would still be entitled to receive the full credit. The only requirement to receiving the benefit would be to file an income tax return.

Under the proposed program, the applicant would be eligible to receive a tax credit equal to the value of property taxes paid (up to a certain maximum) minus a percentage of the applicant's net family income. With zero net family income, the applicant would be eligible for the full tax credit. As the applicant's income increases, the amount of the tax credit would be reduced until the income level is reached where the tax credit is zero.

Since the recommendation to implement a refundable income tax credit is a significant feature of the Commission's interim package for changing local government finance and a significant departure from the current property tax rebate programs, the Commission is of the view that a brief outline is required to describe the refundable income tax credit proposal.

A graphic description of one hypothetical example of how the program would work is set out below. In this example, it is assumed that an applicant pays \$1,000 or more in property taxes, applicants with net incomes of \$25,000 or more do not require a tax credit, and applicants with zero net family income would receive a maximum tax credit of \$1,000. As the amount of net family income rises, the amount of tax credit would be reduced. In this example, the tax credit would be reduced by 4% of net family income so that at \$25,000 of net family income, the tax credit would be zero. At a net family income of \$12,500, the tax credit would amount to \$500 ($\$1,000 - .04 (\$12,500)$). At a net family income of \$5,000, the tax credit would be \$800 ($\$1,000 - .04 (\$5,000)$).



In terms of procedure, an individual would continue to be required to pay the current year's property taxes by December 31. Second, the individual would prepare and file an income tax return the following year, including a form which would calculate the amount of the tax credit. If the taxfiler had zero provincial income tax payable, the individual would still be required to submit a tax return, including the tax credit form, in order to receive the benefit. In this case, the individual would receive a cheque for the full amount of the eligible tax credit. For taxfilers with provincial income taxes payable, the amount of the tax credit would be deducted from the income tax otherwise payable and, if a refund is due, added to the amount of the refund. If the individual has an amount of provincial income tax payable which would be less than the amount of the tax credit, then the taxes due would be reduced to zero and the individual would receive the balance of the tax credit as a refund.

The Commission would like to emphasize:

- (1) the foregoing graphic example is only an example, not a specific proposal. The Commission has reached no decision as to the maximum level of the tax credit and whether different maxima should apply to different categories of taxpayers such as farmers, small businessmen, senior citizens and homeowners. Similarly, the Commission has reached no decision as to the income level at which eligibility for the credit would cease;
- (2) although the Commission has reached no decision as to the maximum level of tax credit or whether different maxima should be applied to different categories of ratepayers, it proposes a significant increase in relation to the maxima under the present programs. If this were not done,

the program would not effectively address the real concerns about the inability of some people to pay property taxes during those years when their incomes are depressed.

The Commission also believes that renters should be eligible for the refundable tax credit since they indirectly pay property taxes. However, in the case of renters, it may be necessary to impute a property tax amount based on a percentage of the total rent paid by the individual.

The Commission proposes that net family income, which would include the net income of both spouses even if they file separate tax returns, be used to determine the amount of tax credit to which the family would be entitled. Family income is a more comprehensive measure of the household's ability to pay property taxes and, therefore, the tax credit would be more equitably distributed to those people who need it. Net income as defined in the current income tax structure is the total income from employment, self-employment, pensions and other sources minus deductions for pension and unemployment insurance contributions, R.R.S.P and R.H.O.S.P. contributions, union dues, tuition fees, child care expenses and allowable business investment losses.

The Commission recognizes that there are some people, particularly senior citizens, who do not now file an income tax return and who would have to file a return in order to receive the tax credit. The Commission is concerned about this potential problem and believes that in order for the refundable tax credit to be very effective, virtually all of the eligible recipients must apply. This means that in addition to a major advertising campaign to notify people of the new program and how it works, there would also have to be a campaign targetted at those people who do not now file, encouraging them to file and to receive the benefits. In particular, the Commission firmly believes that every effort should be made to ensure that current recipients of the senior citizens school tax rebate are contacted about the new program and encouraged to file a tax return. The Commission is hopeful that the problems entailed in having all senior citizens file income tax returns can be resolved. However, it is recognized that the possibility of handling rebates for senior citizens differently than for others may have to be examined.

The Commission also recognizes that there would be a change in the timing of the receipt of benefits under the income tax system compared with the present system of property tax rebates. The changeover from the current provincial administration of the four rebate programs to a refundable tax credit

through the income tax system means that instead of receiving the rebate in the year in which the property taxes are paid, the tax credit would be received in the following year when income tax returns are filed and processed. This delay could cause cash flow problems for some people in the first year of the changeover. Afterwards, the timing of the payment of property taxes would be much closer to the receipt of the tax credit for the previous year's taxes and could even precede the payment of the current year's taxes. The Commission is concerned about this problem and would encourage the Province to explore with the federal government ways of speeding up the processing of tax returns. The Commission wants to stress that the changeover from the current provincial administration to the income tax system will not create a gap in the benefits received by property owners and renters but, rather, a delay in receiving the benefits.

It is very unlikely that any major changes to local government financing arrangements will be made in 1985. It is with this assumption in mind that the proposal for a refundable tax credit has been put forth. Even if major changes in local government funding are made in the future, the Commission believes that as long as property taxes are paid in sizeable amounts, the principle behind the proposed new program will remain valid and that the program can be redesigned to correspond to new circumstances.

The Commission recommends the refundable tax credit be introduced for 1985, which would mean that the tax credit for 1985 property taxes would be paid in early 1986 when the 1985 individual income tax returns are filed. The Commission recommends that the current four rebate programs should be discontinued immediately so that 1984 would be the last year for which rebates would be paid. Steps should also be taken to wrap up any previous years' applications as soon as possible. The Commission notes that if these measures are undertaken, apart from carry-overs from previous years, there would be no expenditure for rebate programs appearing in the 1985-86 provincial budget. For the 1986-87 and subsequent budget years, the costs of the program would be reflected in lower income tax revenues rather than as expenditures.

The Commission has set out a number of principles and procedures for the proposed new refundable property tax credit, but has not proposed specifics of the program criteria. If the Government of Saskatchewan accepts the principles behind the program and decides to proceed with implementation, the Commission would be most pleased to provide more specific comments and recommendations as the program is being designed.

4. Review of Assessments

The magnitude and scope of the concerns and criticisms of property assessments and the current reassessment program warrant priority attention. The Commission plans to devote a considerable amount of time over the next 18 months to addressing these concerns regarding the perceived inequities in assessments, the implications of assessment on location and land use, and the principles and procedures used in the reassessment program. The Commission will be co-ordinating its work in this area with the work being done by committees headed by L. D. Sauder, M.L.A., and M. L. Morin, M.L.A., who are reviewing problems in regard to rural and urban assessments respectively.

Throughout its consultations, the Commission asked various people what they believed to be the real problem with property taxes. A commonly expressed answer was that some people pay too much, while other people do not pay their fair share of property taxes. In effect, they were concerned about the equitable distribution of the tax. The Commission believes that a resolution of the inequities in assessment would go a long way toward resolving these concerns about the property tax.

Another aspect of the assessment process which requires attention is the communication and understanding of assessment. Municipal and provincial assessment personnel need to better explain the assessment process in straight-forward language. Similarly, there is an onus on both provincial and local governments to respond to taxpayers' enquiries and to alleviate their apprehension about assessment and the reassessment program. The Commission will be examining the governance of the assessment process.

5. Equalization

The Commission believes that, over the long-term, efforts should be made to achieve a greater degree of equalization in provincial government grant programs, so that citizens throughout the Province will have access to a similar basic level of programs and services without great disparities in the local tax effort required.

The Commission recognizes that unless incremental funds are added to the revenue sharing pools, changing the grant formulae to achieve more equalization would inevitably result in some local governments receiving more funding, while others receive less. Such changes could pose problems for those local governments who would receive less funds than before as a result of the changed formulae. The Commission, therefore, believes that

any changes to the formulae must be done with considerable sensitivity to the effect those changes would have on each local government unit and that gradual changes are preferable to sudden and dramatic changes.

Over the months ahead, the Commission will be examining the options for achieving greater equalization in capital and operating grant formulae, and the methods by which such options could be implemented to reduce any negative impacts of such changes.

6. Access to the Property Tax Base

As noted earlier, the single most dominant issue raised by local governments and their organizations was the access of various types of local governments to the property tax base.

The Commission believes that much of the concern surrounding this issue will be addressed by the proposed new refundable income tax credit, improving equity in the assessment base and improving equalization in provincial funding programs. Nevertheless, the entire issue of access to the property tax base is complex, there are strongly-felt opinions on the matter among local governments, a wide variety of concerns, suggestions, and options have been identified in this respect, and the Commission believes that they warrant particular attention.

The Commission intends to fully explore this topic over the next several months and to submit an interim report on the subject. In conducting its analysis, the Commission will be guided by the following:

- the Commission has concluded that strong and autonomous local governments are very important and that their access to a meaningful source of local revenue is essential for that strength and autonomy. The Commission has not yet identified an alternative local revenue source which would be suitable for replacing the property tax for particular local governments. Further work in this area is required before conclusions can be reached;
- if the conclusion is ultimately reached that there is no practical alternative to the property tax as a local revenue source for particular local governments, the extent to which each should rely upon this tax would still be a legitimate issue requiring attention;
- the Commission has been advised of legal opinions which suggest the minority school divisions in Saskatchewan have a constitutional right of access to the property tax. The Commission wishes to pursue this matter further to ensure

that all aspects and arguments are fully examined and their implications determined;

- much of the discussion surrounding the question of access to the property tax base has been on the distinction some have made between "services to property" and "services to people". The Commission wishes to explore the nature and validity of these distinctions and their relationship to the appropriateness of funding sources;
- a number of options, most of which would entail a reduction in property taxes, have been suggested to the Commission and the Commission wishes to examine each of those options as fully as possible.

In regard to those options which would entail increases in provincial taxes, the Commission will be examining:

- the new rates of taxation which would be required;
- how those new rates of provincial taxation and lower levels of property taxation would compare with other Provinces;
- how the overall tax load would be redistributed and the fairness of that redistribution;
- the impact on individual and business initiative and the competitive position of Saskatchewan in relation to other jurisdictions;
- overall inflows or outflows of monies from the Province arising from the option.

In regard to those options which would entail offsetting reductions in other provincial grants to municipal governments, the Commission will be examining the overall impact on equalization.

The Commission will also be examining the proposal for a new type of provincially-administered tax - the tax on basic income - which has been suggested as a way of reducing or eliminating school property taxes.

7. Local Government Relations

The Commission notes that there is tension between local governments jointly occupying the property tax base. This ten-

sion has not been conducive to the effective functioning of local governments on behalf of their mutual taxpayers.

On a number of occasions, the Commission heard concerns expressed about citizens holding municipal governments accountable for not just the municipal levy, but also the levies of other local taxing authorities and that this has aroused tensions between local governments. During the consultation process, two constructive suggestions were made in this regard. One was that separate tax notices for school and municipal taxation be sent, using appropriately different envelopes and letterheads to assist the taxpayer in differentiating among the components of the local tax. This suggestion would not necessitate the expense of separate administrations for issuing the notices and collecting taxes, but instead was intended to improve information and reduce misconceptions. One rural municipality indicated that their tax notices are accompanied by an information sheet highlighting the different components of the tax and providing names and telephone numbers of the appropriate elected official who could be contacted if there were concerns. There may be other approaches which would serve to lessen confusion and, hence, strengthen accountability, and the Commission will be examining some possibilities in this regard in the months ahead.

The Commission believes the onus rests with individual local governments to initiate communication with the other local governments in the area regarding plans for programs, facilities and funding requirements. Better communication will assist greatly in enhancing co-operative efforts between local governments and this will ultimately be in the best interests of all citizens.

The Commission also encourages the provincial associations representing each type of local government to take a leadership role in encouraging communication and co-operation at the local level amongst the local government units. The Commission will be holding discussions with the associations in the future to determine what measures could be implemented to improve relations among local governments.

8. Operating Programs

The Commission has just begun its analysis of provincial government operating grant programs to local governments. The Commission heard a high degree of support for these grant programs from urban and rural municipalities and school divisions, although a number of concerns were expressed about each program. The Commission intends, over the months ahead, to study all of the concerns raised and to explore potential solutions.

The Commission intends to make recommendations to the Government, where required, on how these grant programs could better meet the needs of local governments and ultimately the taxpayer.

In the interim, the Commission is of the opinion that the operating grant programs should be continued in their present form.

9. Capital

The Commission has not had sufficient time to come to conclusions in regard to long-term capital needs and programs for northern, rural and urban municipalities, schools, libraries and hospitals.

However, for the interim period, the Commission believes that:

- current capital programs should remain in place for the next two years until such time as research and consultation have been completed and specific recommendations set forth. Part of this "status quo" includes a continuation of the current Community Capital Fund Program for urban municipalities. An early announcement in this respect would alleviate a considerable portion of the uncertainty surrounding future urban capital assistance;
- the future role of the Saskatchewan Water Corporation should be clarified. The nature and extent of the Corporation's involvement in water supply and sewage treatment projects must be clarified before municipalities are able to plan and before long-term provincial programs of capital assistance to municipalities can be structured.

The areas which the Commission intends to review prior to June, 1986 are:

- the concept of unconditionality in capital grant programs, particularly for urban municipalities where the needs are so diverse and where local decisions on priorities are likely to result in better utilization of funds. The Commission believes that it would be desirable to review the possibility of rolling some current conditional programs into an unconditional pool, provided that this can be done in such a way as to ensure that no municipality is disadvantaged in terms of its "share" of such monies that are rolled in;
- the possibility of placing greater reliance on user charges to finance the capital costs of sewer and water projects;

- capital assistance for rural municipalities. Rural municipalities feel they have needs that are not being met and believe that they are not eligible for sufficient capital assistance relative to their urban counterparts. The Commission will be addressing the question of the nature and extent of rural needs and possible programs in this respect;
- certain aspects of the financing of capital needs for libraries and hospitals.

10. Northern Governments

The Commission acknowledges the problems and concerns of northern municipalities and will be devoting attention to this area. The Commission will look at the financial needs of northern municipalities and how these needs can be met.

11. Health Delivery and Funding

The Commission will be looking at some aspects of the delivery and funding of health-care such as the Hospital Revenue Tax, access to local revenues by private hospitals and the possibilities for implementing coterminous boundaries for health-care agencies.

12. Libraries

The Commission will also be giving further consideration to the funding and governance of libraries. Several concerns and suggestions for change were raised during the conference and regional meetings and these will be examined in more depth.

13. Summary

The Commission has set out the basic framework which will guide and focus its work over the remainder of its mandate.

The Commission is committed to strong local government, and has identified some requirements that must be met to ensure that strength.

The Commission has proposed a new refundable income tax credit to address the lack of responsiveness of the property tax to changes in the income status of those who pay the tax. The Commission proposes to undertake a review of assessment criteria in an effort to improve the equity of the property tax. The Commission also proposes to review possible ways to improve the degree of equalization in provincial grant programs to enhance equity in the distribution of tax loads among local govern-

ments. Taken together, these proposals and undertakings address a major portion of the issues relating to local government funding and the utilization of the property tax base.

The Commission has set out some areas which will be explored to address the question of access to the local property tax base. The Commission intends to give this issue priority attention in its next Interim Report.

The Commission will consult with local governments regarding ways in which they might work together more constructively.

The Commission will review capital and operating grant programs and recommends that current programs remain in place until the Commission has submitted its report in this regard.

The Commission will address the financing of northern local governments, certain aspects of the delivery and funding of health-care services and the funding and governance of libraries, in subsequent reports.

CHAPTER VI

CONCLUSION

In this first Interim Report, the Local Government Finance Commission has summarized the issues and concerns heard as a result of its consultations to date, identified the major issues, and set out a conceptual framework which will guide and focus the future work of the Commission.

The most important specific proposal in the report is for the creation of a new refundable income tax credit to assist those with low incomes to pay their property taxes. The Commission proposes that this new program immediately replace the Property Improvement Grant, the Senior Citizens School Tax Rebate, the Renters Property Tax Rebate Program, and the farmers' Home Quarter Tax Assistance Program.

The Commission plans to give priority attention to the issue of access to the local property tax base in its next interim report.

The Commission intends to continue its consultative process as the work proceeds, and would appreciate comments on this report and the areas which have been identified for further study.

TABLE 1-1

VARIABILITY OF MUNICIPAL AND SCHOOL MILL RATES FOR 1983

	<u>Average</u>	<u>1 Standard Deviation**</u>
Cities	88.21	15.53
Towns and Villages	62.12	22.78
Rural Municipalities	90.14	18.39
Schools	105.08	13.52
Northern Municipalities***	51.00	29.70

* Averages are not weighted but are strictly mathematical averages.

**Standard deviation is a measure of the variation of mill rates from the average.

***Includes all towns, northern villages, northern hamlets and northern settlements except Uranium City, Air Ronge, Ile-a-la-Crosse, Descharme, and Garson Lake which are unavailable.

TABLE 1-2

FREQUENCY DISTRIBUTION OF 1983
EQUALIZED MUNICIPAL MILL RATES
FOR TOWNS AND VILLAGES

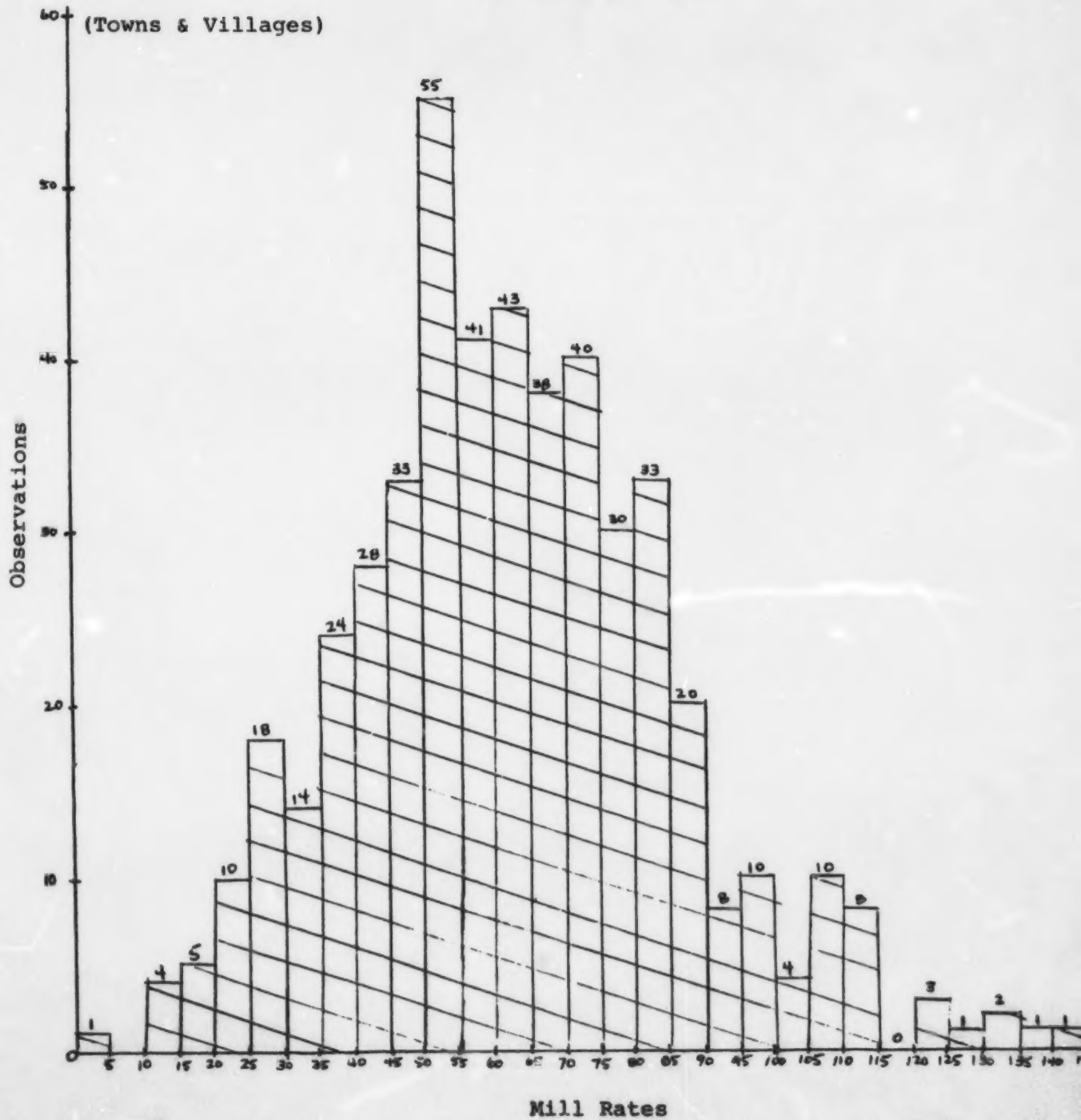


TABLE 1-3

FREQUENCY DISTRIBUTION OF 1983 EQUALIZED
MUNICIPAL MILL RATES FOR CITIES

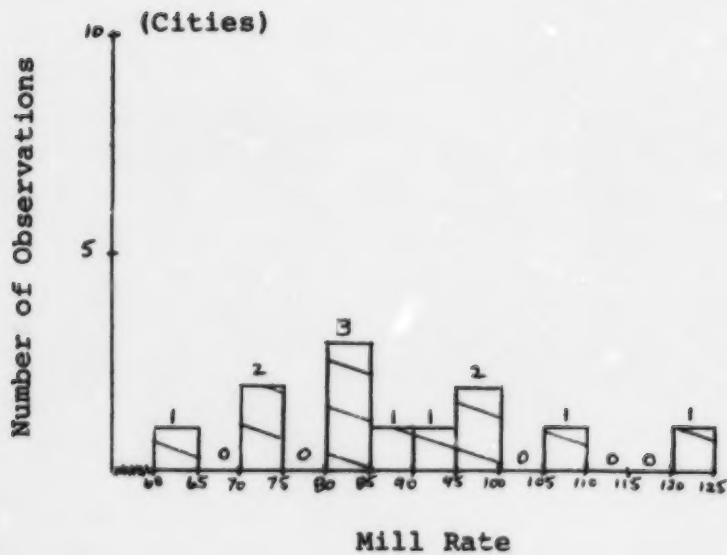


TABLE 1-4

FREQUENCY DISTRIBUTION OF 1983 EQUALIZED
MUNICIPAL MILL RATES FOR RURAL MUNICIPALITIES

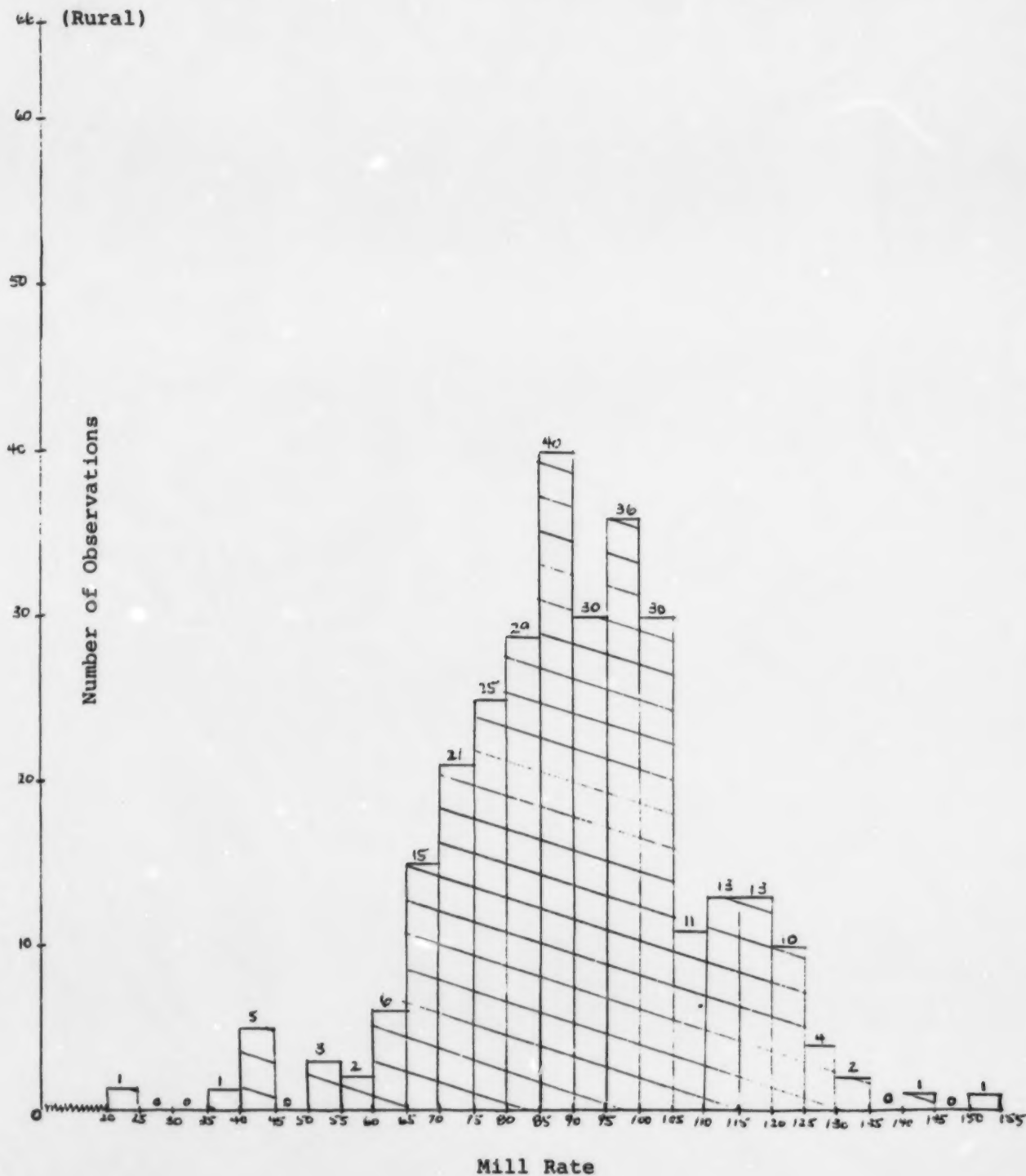


TABLE 1-5

FREQUENCY DISTRIBUTION OF 1983 EQUALIZED
MILL RATES FOR SCHOOL DIVISIONS

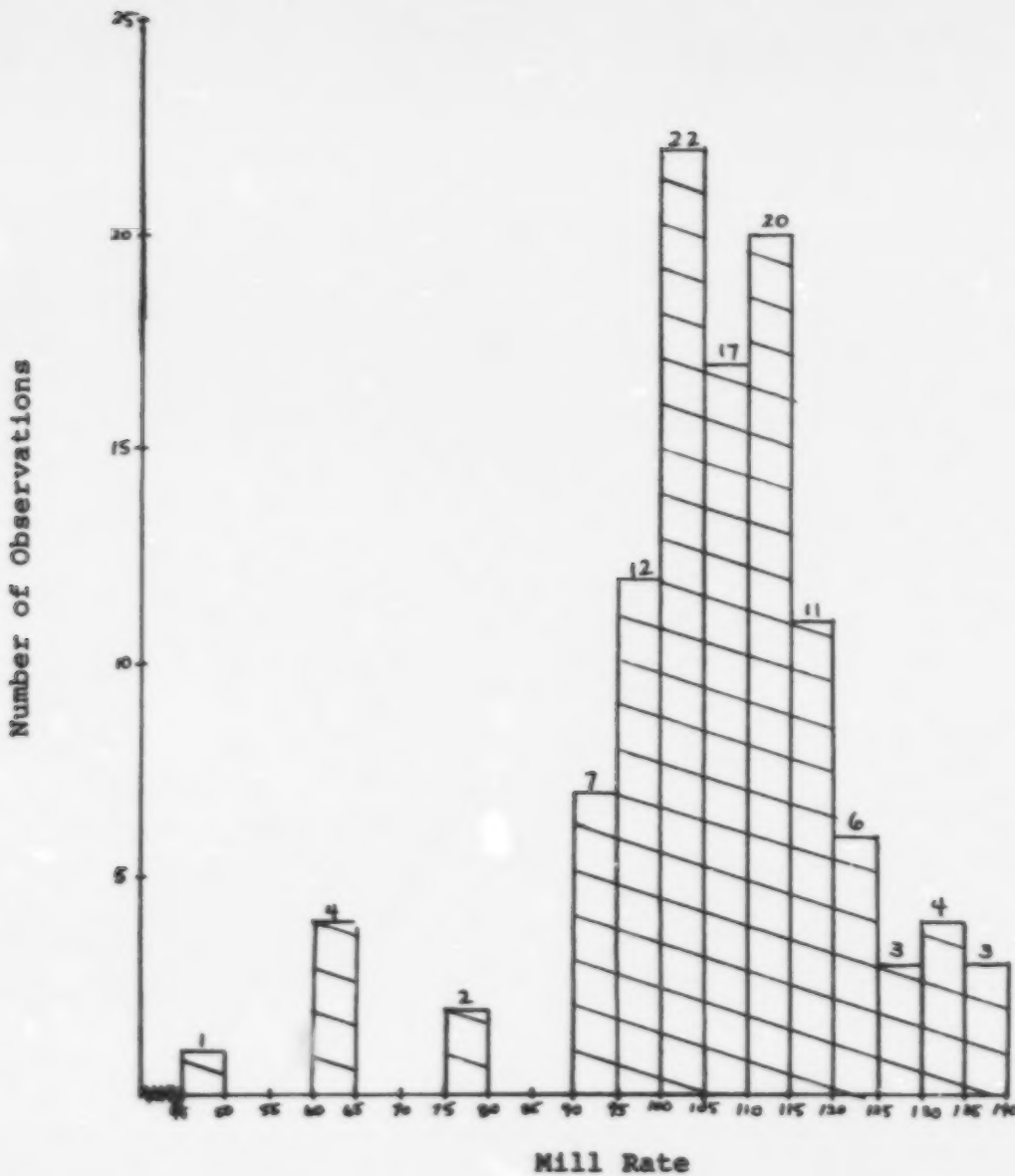


TABLE 1-6

FREQUENCY DISTRIBUTION OF 1983 EQUALIZED
MILL RATES FOR NORTHERN MUNICIPALITIES

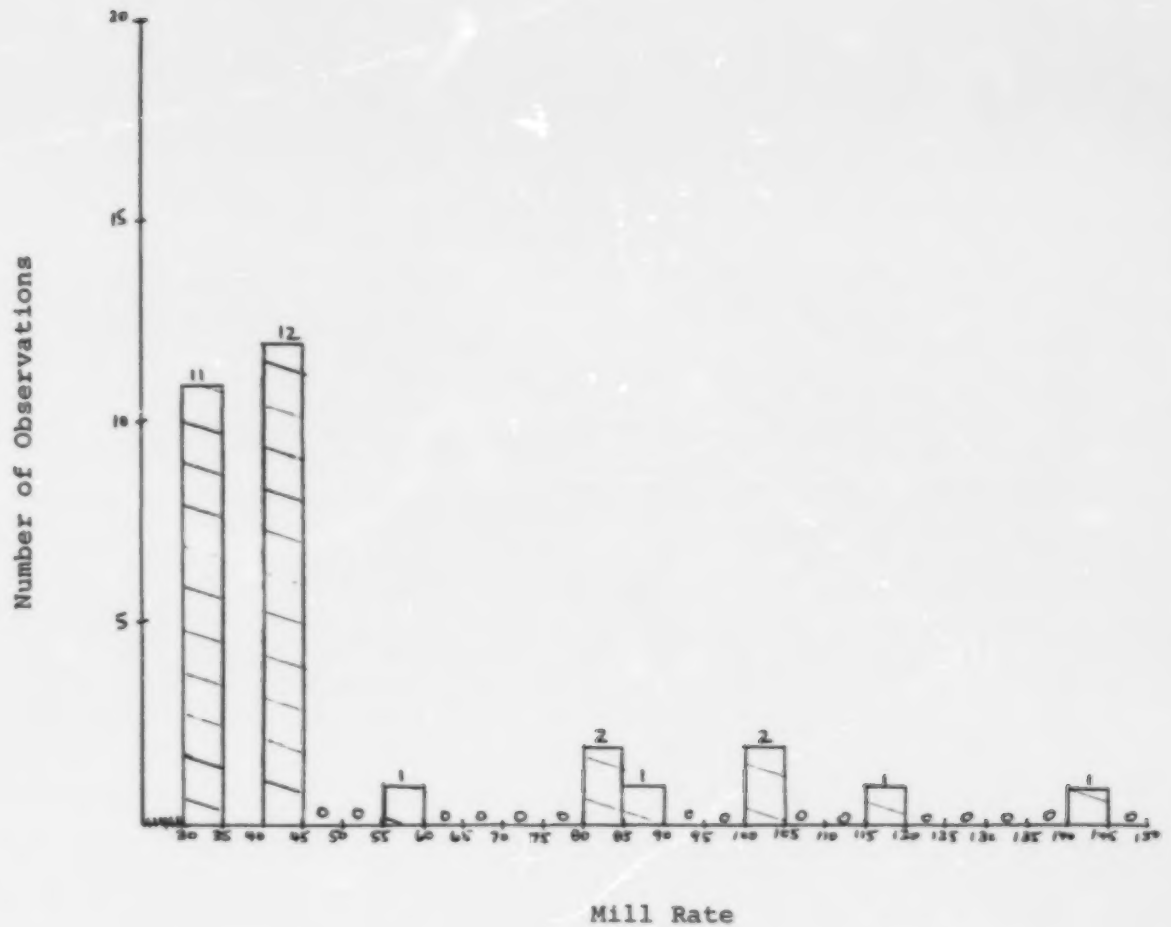


TABLE 2-1

REDISTRIBUTIVE EFFECTS OF THE CURRENT PROPERTY TAX REBATES
(Senior Citizen Farm Resident)

	<u>Total Taxes Payable</u>	<u>Total Property Tax Rebates</u>	<u>Net Taxes Payable</u>	<u>Rebates as % of Total Taxes</u>
<u>R.M. of Francis #127</u>				
1/4 section	\$ 661	\$ 639	\$ 22	96.7%
1/2 section	1,323	639	684	48.3
1 section	2,646	701	1,945	26.5
1.5 sections	3,969	784	3,185	19.8
3 sections	7,937	784	7,153	9.9
<u>R.M. of Sherwood #159</u>				
1/4 section	488	682	- 194	139.8
1/2 section	975	682	293	69.9
1 section	1,951	744	1,207	38.1
1.5 sections	2,926	827	2,099	28.3
3 sections	5,852	827	5,025	14.1
<u>R. M. of Round Valley #410</u>				
1/4 section	870	680	190	78.2
1/2 section	1,739	680	1,059	39.1
1 section	3,479	742	2,737	21.3
1.5 sections	5,218	825	4,393	15.8
3 sections	10,436	825	9,611	7.9

Assumptions:

- (1) Farm located in the dark brown soil zone.
- (2) Assessment of \$3,420 per 1/4 section based on the old assessment manual.
- (3) R.M. #127 mill rates: municipal 86, school 105, other 2.4.
- (4) R.M. #159 mill rates: municipal 23, school 117.6, other 2.0.
- (5) R.M. #410 mill rates: municipal 126.3, school 117, other 11.0.

TABLE 2-2

REDISTRIBUTIVE EFFECTS OF THE CURRENT PROPERTY TAX REBATES
(Non-Senior Citizen Farm Resident)

	<u>Total Taxes Payable</u>	<u>Total Property Tax Rebates</u>	<u>Net Taxes Payable</u>	<u>Rebates as % of Total Taxes</u>
<u>R.M. of Francis #127</u>				
1/4 section	\$ 661	\$ 589	\$ 72	89.1%
1/2 section	1,323	589	734	44.5
1 section	2,646	701	1,945	26.5
1.5 sections	3,969	734	3,235	18.5
3 sections	7,937	734	7,203	9.2
<u>R.M. of Sherwood #159</u>				
1/4 section	488	632	- 144	129.5
1/2 section	975	632	343	64.8
1 section	1,951	744	1,207	38.1
1.5 sections	2,926	777	2,149	26.6
3 sections	5,852	777	5,075	13.3
<u>R.M. of Round Valley #410</u>				
1/4 section	870	630	240	72.4
1/2 section	1,739	630	1,109	36.2
1 section	3,479	742	2,737	21.3
1.5 sections	5,218	775	4,443	14.9
3 sections	10,436	775	9,661	7.4

Assumptions:

- (1) Farm located in the dark brown soil zone.
- (2) Assessment of \$3,420 per 1/4 section based on the old assessment manual.
- (3) R.M. #127 mill rates: municipal 86, school 105, other 2.4.
- (4) R.M. #159 mill rates: municipal 23, school 117.6, other 2.0
- (5) R.M. #410 mill rates: municipal 126.3, school 117, other 11.0.

TABLE 2 - 3

REDISTRIBUTION EFFECTS OF THE CURRENT PROPERTY TAX REBATES

Non-Senior Citizen Homeowner

	<u>Average Assessment</u>	<u>Total Taxes</u>	<u>Property Tax Rebate</u>	<u>Net Taxes Payable</u>	<u>Rebate as a % of Total Taxes</u>
Regina	\$4,350	\$1,187	\$230	\$957	19.4%
Prince Albert	\$5,321	\$1,043	\$230	\$813	22.1%
Carlyle	\$4,410	\$816	\$230	\$586	28.2%
Strongfield	\$2,535	\$327	\$163.50	\$163.50	50.%

Senior Citizen Homeowner

	<u>Average Assessment</u>	<u>Total Taxes</u>	<u>Property Tax Rebate</u>	<u>Net Taxes Payable</u>	<u>Rebate as a % of Total Taxes</u>
Regina	\$3,591	\$980	\$452	\$528	46.1%
Prince Albert	\$4,469	\$876	\$429	\$447	49.0%
Carlyle	\$3,330	\$616	\$316	\$300	51.3%
Strongfield	\$2,100	\$271	\$185	\$86	68.3%

Assumptions:

- (1) 1982 average total taxes from Urban Affairs
- (2) Regina total mill rate 272.88 (125.96 school)
- (3) Prince Albert total mill rate 196 (96 school)
- (4) Carlyle total mill rate 185 (95 school)
- (5) Strongfield total mill rate 129 (84 school)

Local Government Finance Commission
January, 1985

TABLE 3
COMPARISON OF PER CAPITA ASSESSMENTS BETWEEN NORTHERN AND SOUTHERN MUNICIPALITIES

Town, Northern Village, Northern Hamlet, or Northern Settlement	1983 Equalized Assessment	Value of One Mill	Census Population	Assessment Per Capita	Comparable (Population) Southern Municipalities	
					Average Per Capita Assessment	Percentage of Assessment to Average
Creighton	\$ 3,138,602	\$ 3,139	1,636	\$ 1,918.46	\$ 2,147.53	89.3%
La Ronge	4,227,720	4,228	2,579	1,639.29	2,468.03	66.4%
Uranium City ¹						
Air Ronge	501,332	501	557	900.06	1,789.60	50.3%
Beauval	353,380	353	606	583.14	2,068.82	28.2%
Buffalo Narrows	892,033	892	1,088	819.88	2,064.14	39.7%
Cumberland House	423,464	423	831	509.58	1,670.02	30.5%
Denare Beach	603,954	604	592	1,020.19	2,161.55	47.2%
Green Lake	417,537	418	634	658.58	2,178.23	30.2%
Ile-A-La-Crosse	514,687	515	1,035	497.28	1,937.03	25.7%
La Loche	541,924	542	1,632	332.06	2,081.59	16.0%
Pinehouse	208,311	208	612	340.38	2,124.60	16.0%
Sandy Bay	257,308	257	756	340.35	1,900.46	17.9%
Colebay	77,269	77	182	424.55	1,871.53	22.7%
Deschambault Lake	89,320	89	386	231.40	1,704.59	13.6%
Jan Bay	41,045	41	158	259.78	1,597.17	16.3%
Michel Village	36,875	37	130	283.65	2,047.60	13.9%
Pelican Narrows	217,880	218	331	658.25	1,993.65	33.0%
Southend	62,640	63	176	355.91	1,907.03	18.7%
Timber Bay	26,939	27	152	177.23	1,895.29	9.4%
Patuanak	21,435	21	73	293.63	2,001.46	14.7%
St. George's Hill	24,264	24	115	210.99	2,317.53	9.1%
Weyakwin	88,028	88	106	830.45	1,908.97	43.5%
Missinipe	96,405	96	50	1,928.10	2,558.42	75.4%

TABLE 3
(continued)

Town, Northern Village, Northern Hamlet, or Northern Settlement	1983 Equalized Assessment	Value of One Mill	Census Population	Assessment per Capita	Comparable (Population) Southern Municipalities	
					Average Per Capita Assessment	Percentage of Assessment to Average
Stanley Mission	\$ 47,380	47	140	\$ 338.43	\$ 1,677.71	20.2%
Brabant Lake	50,400	50	245	205.88	1,847.11	11.1%
Camsell Portage	17,104	17	48	356.33	2,560.27	13.9%
Descharme	0	0	47	0	2,560.27	0%
Dore Lake	27,025	27	66	409.47	2,164.26	18.9%
Garton Lake ²	0	0	48	0	2,560.27	0%
Kinoosao	40,230	40	82	490.61	2,173.47	22.6%
Sled Lake	16,030	16	43	372.79	2,852.08	13.1%
Stony Rapids	81,450	81	255	319.44	1,946.09	16.4%
Sturgeon Landing	20,570	21	49	419.80	2,553.29	16.4%
Turnor Lake	24,350	24	166	146.68	1,545.94	9.5%
Wollaston Lake	60,280	60	248	243.06	1,847.11	13.2%
Average for communities 500+ population				961.96	1,952.50	49.3%
Average for communities below 500 population				364.56	1,902.18	19.2%
Overall average				840.61	1,937.98	43.4%

¹Data not shown due to mine closure.

²Assessment of these communities has not been completed.

Local Government Finance Commission
November 26, 1994

TABLE 4

REVENUE YIELD OF VARIOUS TAX POINTS

<u>Tax</u>	<u>Value of One Percentage Point</u>
Personal Income Tax	
- current tax rate: 51% of basic federal tax	\$ 13.5 million
Corporate Income Tax	
- current tax rate:	
- general: 16% of taxable income	\$ 8.4 million
- small business: 10% of taxable income	\$ 3.2 million
Education and Health Tax	
- current tax rate: 5% of retail sales price	\$ 65.5 million

Source: Saskatchewan Finance

TABLE 5
INTER-PROVINCIAL COMPARISON OF TAX RATES

Province	Personal Income Tax	Corporate Income Tax		Retail Sales Tax
		Small Business Rate	General Rate	
B.C.	44.0%	8%	16%	7%
Alta.	43.5	5	11	-
Sask.	51.0	10	16	5
Man.	54.0	10	16	6
Ont.	48.0	0*	15	7
Que.	**	3	13	9
N.B.	58.0	0	15	10
N.S.	56.5	10	15	10
P.E.I.	52.5		10	10
Nfld.	60.0	10	16	12

* 1984 only. In 1985, it will revert to 10%.

** Quebec administers its own personal income taxes, using its own set of rules governing what constitutes income, allowable deductions, rates of progression, etc., and for this reason, is not comparable to other provinces. All other provinces have the federal government collect the income tax for them using standard federal rules, and all taxes are expressed as percentages of federal basic taxes.

TABLE 6

PER CAPITA PROPERTY TAXES, 1968 - 1980¹

Province	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
						(dollars)							
Newfoundland.....	11.76	12.07	14.84	15.55	18.38	20.19	24.68	38.22	42.44	53.17	53.43	62.16	70.52
Prince Edward Is.	53.88	60.30	53.37	61.24	65.38	77.08	71.02	81.88	96.51	112.38	124.57	137.72	146.00
Nova Scotia.....	77.16	79.82	92.45	106.65	118.72	120.17	128.12	146.83	164.15	168.03	168.76	183.80	202.48
New Brunswick....	55.53	59.10	67.11	72.38	82.26	89.09	106.49	111.39	126.20	151.80	163.32	175.98	199.95
Quebec.....	103.18	114.32	143.73	137.76	148.42	159.22	169.33	186.57	215.36	223.71	255.86	256.50	282.37
Ontario.....	152.39	167.81	183.99	190.02	198.89	199.81	219.80	247.95	299.09	330.64	337.83	373.83	404.07
Manitoba.....	115.68	127.89	140.97	147.83	164.76	176.35	213.17	260.19	305.52	307.99	336.91	373.02	419.45
Saskatchewan.....	132.77	146.28	161.12	168.08	179.71	187.63	196.68	216.56	251.64	277.35	297.25	307.44	342.37
Alberta.....	124.97	135.64	148.88	162.21	178.89	186.68	187.01	220.56	246.21	266.61	302.08	319.26	352.94
British Columbia.	137.72	152.93	182.95	190.62	206.95	225.91	265.79	323.55	371.01	379.64	420.50	457.80	492.79
Average ²	122.49	134.92	155.24	159.02	170.33	177.62	197.32	222.72	260.95	279.54	300.75	322.84	352.67

¹These totals include both local and provincial property taxes where applicable.

²Ten-province average.

This Table has been reproduced from an article entitled "Property Taxation: Overutilized or Underutilized" by Harry M. Kitchen, published in the July-August, 1982 edition of the Canadian Tax Journal.

TABLE 7

UTILIZATION OF PROPERTY TAXES COMPARED WITH UTILIZATION
OF PERSONAL INCOME TAXES FOR SELECTED YEARS BY PROVINCE

Province	1968		1971		1975		1980	
	Property tax	Personal income tax	Property tax	Personal income tax	Property tax	Personal income tax	Property tax	Personal income tax
	per cent							
Newfoundland.....	0.67	6.46	0.68	8.76	1.04	12.08	1.13	11.92
Prince Edward Island.....	3.23	5.36	2.96	8.33	2.09	9.68	2.31	10.12
Nova Scotia.....	3.65	7.21	4.04	10.22	3.20	11.98	2.69	12.23
New Brunswick.....	2.81	6.79	2.91	10.36	2.40	11.43	2.77	11.17
Quebec.....	3.87	9.38	4.17	12.39	3.25	12.00	2.91	16.54
Ontario.....	4.19	9.59	4.25	10.81	3.46	12.20	3.54	12.37
Manitoba.....	4.00	8.16	4.15	10.79	4.20	11.48	4.32	11.33
Saskatchewan.....	4.88	6.93	4.88	7.61	2.94	9.91	2.90	9.19
Alberta.....	3.43	6.59	3.59	9.41	2.32	8.62	1.95	8.94
British Columbia.....	4.07	9.39	4.61	12.11	4.65	12.97	3.90	12.84
Average.....	3.94	8.94	4.13	11.50	3.34	11.67	3.15	12.68

This Table has been reproduced from a book entitled "Local Government Finance in Canada",
by Harry M. Kitchen, published by the Canadian Tax Foundation, page 397.

APPENDIX 1

FINANCIAL BACKGROUND

In August, 1984 the Commission published its Background Paper on Local Government Financial Issues. The following section is a summary of some of the important trends indicated in the statistical information of the Background Paper.

Urban Governments

Saskatchewan's 506 urban municipalities contain over 70% of the Province's population. These urban governments provide a wide variety of services, ranging from the traditional "hard" services like streets, water, sewer, police and fire protection, to the more recent "softer" services such as recreation, housing assistance, planning and cultural facilities and programs.

Operating expenditures of urban governments have increased by a compound annual average rate of growth of 14.9% over the period 1971 to 1982, and totalled \$359.6 million in 1982. The relative proportion of the various sources of revenues to finance these expenditures has changed over the period. Property taxes increased annually by 11.8% on average from 1971 to 1982, but as a percentage of urban revenues, dropped from 62.1% to 46.4%. Increasing expenditures over the last decade have been funded in greater proportions by provincial and federal government transfers, which have grown by 24.9% per year and in 1982 constituted 19.8% of total revenues.

Utilities are a major activity for urban governments and generated \$116.4 million in revenues in 1982, a compound annual average rate of growth of 12.2% from 1971 to 1982.

Capital expenditures by urban governments are also significant, totalling \$153.0 million in 1981, a 22.6% average annual increase over a 10 year period. Capital expenditures have traditionally been financed by approximately one-half coming from their own source revenue, with the remainder being financed in similar proportions by capital grants and debt financing.

Rural Governments

Saskatchewan has 299 rural municipalities which contain 25% of the provincial population. The largest activity of rural governments is the construction and maintenance of roads and bridges.

Operating expenditures of rural governments have increased by a compound annual average rate of growth of 11% over the period 1971 - 1982 and totalled \$133.3 million in 1982. To fund these expenditures, both property taxes and provincial grants have increased by a compound average annual growth of 10.5% from 1971 to 1982. In 1982, property taxes funded 58.5% of rural government revenues, a small decrease from 60.1% in 1971. Government grants provided 30.8% of total revenues.

Capital expenditures by rural governments totalled \$16.3 million in 1982, a compound annual average rate of growth of 13.1% over the 11 year period. However, it should be noted that rural capital expenditures do not include road and bridge construction which is considered to be an operating cost. Capital expenditures are funded mainly by transfers from operating revenues (91% in 1982) with a relatively small amount financed by debt.

Schools

There are currently 112 school divisions, consisting of 961 schools in the province. Enrolment in 1983 was 193,320 full-time equivalent students. Over the past decade, school expenditures have been influenced by increasing program demands and decreasing enrolments.

Over the period 1971 to 1982, gross expenditures for schools have increased to \$637 million, a compound annual average rate of growth of 12.8%. Property taxes now constitute a slightly smaller proportion of total gross revenues, having declined from 48% in 1971 to 44% in 1982, although they have increased by 11.6% per year on average. Provincial grants increased substantially as a percentage of total revenues over the period 1971 to 1976, increasing from 45.3% in 1971 to nearly 54% by 1976. However, since that time, provincial grants have declined to 47% in 1982.

Capital expenditures by schools totalled \$53.1 million in 1982, a compound annual average rate of growth of 13.9% over 1975 expenditures.

Libraries

There are currently three municipal libraries, seven regional libraries and several libraries in the northern administration district which provide library service throughout the province.

Operating expenditures of libraries totalled \$15.2 million in 1982, an annual average rate of growth of 16.6% since 1971.

Contributions from property taxes or other revenue sources have declined slightly as a percentage of total library revenues, from 37.5% to 34% for regional libraries and from 90.5% to 86% for municipal libraries over the 11 year period. This decline has been mainly compensated for by increased provincial grants.

Health

Health care costs are, for the most part, funded by the Province, which spent \$714.8 million on health care operating costs in 1982, and \$19.1 million on capital costs. Regina and Saskatoon fund their own community health programs with some financial assistance from the provincial government. Union and municipal hospitals receive some funding from the local property taxes for additional programs, not funded by the Provincial Government grant program or for deficits incurred. In 1982, provincial grants to union and municipal hospitals totalled \$169.4 million, a compound annual average rate of growth of 12.5% over the period 1971 to 1982.

APPENDIX 2

**LIST OF ORGANIZATIONS INVITED TO ATTEND "OPTIONS FOR THE
FUTURE" CONFERENCE**

Commission Members

Ray Clayton, Chairman
Don Rowlatt, Vice-Chairman
Ted Brady
Nick Volk
Bob Linner
Lol O'Shaughnessy
Herve Langlois
Ike Thiessen

Government of Saskatchewan

Hon. Grant Devine, Premier of Saskatchewan
Hon. Bob Andrew, Minister of Finance
Hon. Louis Domotor, Minister of Rural Development
Hon. Patricia Smith, Minister of Education
Hon. Tim Embury, Minister of Urban Affairs
Hon. Graham Taylor, Minister of Health
Duane Weiman, M.L.A., Legislative Secretary to the Minister
of Education
Arnold Tusa, M.L.A., Legislative Secretary to the Minister of
Education
Lloyd Sauder, M.L.A., Legislative Secretary to the Minister
of Rural Development

DELEGATES

Saskatchewan Urban Municipalities Association

Alderman Herb Taylor, President
Alderman Ed. Magis, Vice President, Cities
Mayor Len Boxell, Director, Towns
Mayor George Bristow, Vice President, Villages
Dick Wankling, Executive Director

Saskatchewan School Trustees Association

Bob Mann, President
Walter Neufeld, First Vice President
Alphonse Kirzinger, Second Vice President
Gilda Treleaven, Executive Member
Jake Volk, Executive Director

DELEGATES (continued)

Saskatchewan Association of Rural Municipalities

Charlie Phelps, President
Keith Smith, Director, Division 1
Bernard Kirwan, Director, Division 3
Val Kononoff, Director, Division 5
Lorne Wilkinson, Executive Director

Saskatchewan Health-Care Association

Sister Therese Roddy, President
Bernie McCallion, Second Vice President
Hewitt Helmsing, Executive Director

Saskatchewan Library Trustees Association

Bessie Darrach, President
Kathy Wasmann, Board Member
George Bothwell, Secretary Treasurer

OBSERVERS

Alberta Municipal Affairs
Association of Metis and Non Status Indians
Association of School Business Officials
City of Regina
City of Saskatoon
Consumers Association of Canada
Credit Union Central
Housing and Urban Development Association
I.P.S.C.O.
League of Educational Administrators, Directors and
Superintendents
Manitoba Department of Municipal Affairs
Manitoba Department of Urban Affairs
National Farmers' Union
Office of the Opposition
Palliser Wheat Growers Association
Regina Public School Board
Regina Separate School Board
Rural Municipal Administrators' Association
Saskatchewan Action Committee on the Status of Women
Saskatchewan Association of Health Services Executives
Saskatchewan Association of Northern Local Governments
Saskatchewan Association of Special Care Homes
Saskatchewan Chamber of Commerce

OBSERVERS (continued)

Saskatchewan Conservation and Development Association
Saskatchewan Federation of Labour
Saskatchewan Libraries Association
Saskatchewan Livestock Association
Saskatchewan Mining Association
Saskatchewan Parks and Recreation Association
Saskatchewan Potash Producers Association
Saskatchewan Roadbuilding and Heavy Construction
Association
Saskatchewan Teachers' Federation
Saskatchewan Wheat Pool
Saskatoon Public School Board
Saskatoon Separate School Board
United Grain Growers Association
University of Regina
University of Saskatchewan
Urban Municipal Administrators' Association
Western Canada Cow Calf Association

Saskatchewan Urban Municipalities Association--Observers

Mayor Frank Gallant
Mayor L. H. (Scoop) Lewry
Alderman Wilma Staff
Mayor Don Abel
Mayor Thelma Wright
Mayor J. Bell
Mayor P. J. Mills
Mayor Doug King
Alderman Edith Kerr
Alderman Joe McKeown
Alderman John McIntosh
Mayor Murray Westby
Mayor Peggy Wright
Mayor Mel Hegland
Mayor Wayne McIntyre
Brett Filson

Saskatchewan School Trustees Association--Observers

John Lipp
Darwin Chatterson
Murray Bright
Mary Hicks
George Marcenko
Leo S. Frison

OBSERVERS (continued)

Saskatchewan School Trustees Association--Observers

Lucille Wall
Bernie Wiens
Jim Phillips
Margaret Tornquist
Ervin J. Elke
Gordon Goodfellow
Winston McKay
Dwight Welisch
Leslie Anderson
Craig Melvin

Saskatchewan Association of Rural Municipalities--
Observers

Bill Street
Adam Puszkarenko
A.C. Steiert
Ross Evans
Bill Real
Ken Grad
Ron Vermeulen
Daryl Rumble
Keith Carleton
Gust Oja
Ed Golembo
Tom Skoretz
Ray Simmons
Ted Kunz
Stuart Holtzman
Lorne Jeffries
Charles McCaffrey
Jim Nichols

Saskatchewan Health-Care Association--Observers

Barry Woulds
Carl Anderson
Laurie Caverly
John Gracey
Larry Koturbash
Brian Kines

OBSERVERS (continued)

Saskatchewan Health-Care Association--Observers

Maria Reardon
Carl Schuweiler

Saskatchewan Library Trustees Association--Observers

Nick Gabruch
Jean Murch
George Gelmich
Louis Kolla
Audrey Sullivan
Mary Emson

Government Departments and Agencies--Observers

Executive Council, Norman Riddell, Deputy Minister to the
Premier
Department of Rural Development, Dan Gilewich, Deputy
Minister
Department of Urban Affairs, Dave Innes, Deputy Minister
Department of Education, Rod Wickstrom, Deputy Minister
Department of Health, Walter Podiluk, Deputy Minister
Department of Finance, Michael Costello, Deputy Minister
Task Force on Rural Development--Allan Carr
--Dennis Webster
Provincial Library, Karen Adams, Provincial Librarian
Saskatchewan Power Corporation, Virgil Nelson, Vice President
of Regulatory Affairs and Strategic Planning
Crown Management Board, Graham Parsons, Director of Economic
Analysis
Local Government Board, Oren Wilson, Chairman
Municipal Finance Corporation, Morley Meiklejohn, General
Manager
Saskatchewan Assessment Authority, Don Bennett, Executive
Director

Local Government Finance Commission Staff Members

Donald Koop
Arleen Hynd
Brian Hamill
Michael Dumelie

APPENDIX 3

LIST OF REGIONAL MEETINGS

Kindersley	October 18, 1984
Swift Current	October 19, 1984
Yorkton	October 24, 1984
Estevan	October 25, 1984
Assiniboia	October 26, 1984
Regina	November 1 & 2, 1984
North Battleford	November 7, 1984
Prince Albert	November 8, 1984
La Ronge	November 9, 1984
Tisdale	November 14, 1984
Saskatoon	November 15 & 16, 1984

APPENDIX 4

NUMBER OF BRIEFS TO COMMISSION, BY CATEGORY

	Presented at Regional Meeting	Mailed to Commission	Total
Rural Municipalities	24	23	47
Urban Municipalities	18	4*	22
Northern Municipalities	1	-	1
School Divisions	34	4*	38
Library Boards	9	-	9
Hospital Boards	8	4	12
Other Organizations	22	5	27
Individual Citizens or Businesses	<u>10</u>	<u>6</u>	<u>16</u>
	<u>126</u>	<u>46</u>	<u>172</u>

as of December 14, 1984

*Includes 2 briefs presented to the Commission at a meeting in Moose Jaw.

APPENDIX 5

SUMMARY OF ISSUES AND CONCERNS SUBMITTED TO THE COMMISSION

URBAN MUNICIPALITIES

The following comments were presented by urban municipalities and the Saskatchewan Urban Municipalities Association.

Local Governance

- local autonomy and accountability are important if local governments are to meet the varying needs in their communities;
- autonomy is derived from legislation and unconditional grants. Different views were expressed on the importance of a local source of revenue to local autonomy for various types of local government;
- excessive reliance on provincial grants reduces autonomy and the stability and predictability of funding.

Future Trends

- growing need for upgrading and replacing urban infrastructure, particularly for water and sewer projects.

Principles of Funding

- there were various views on the extent to which property taxes should be used to fund non-municipal services, such as education, health-care, libraries, public housing and social services. Some felt such services should have access to the property tax, particularly for discretionary spending, while others thought the funding for these services from the property tax should be restricted or eliminated;
- comments regarding school financing included removal of education from the property tax because of concerns about non-property owners not paying their fair share, encroachment on municipal tax room, assessment inequities, and provincial control over many education costs;
- rebate funds could be used to finance a greater proportion of education costs;

- only discretionary education costs should be funded by property taxes; the costs of a basic education should be financed provincially;
- a referendum should be required before a school can spend more than the computational mill rate;
- school divisions should reimburse municipalities for the costs of collecting education taxes;
- concerns about businesses paying education taxes because they receive no benefits;
- there was concern about urban taxpayers paying for services used by non-residents of the community;
- senior government revenues are collected from taxes based on ability to pay and should be used to reduce the fiscal imbalance of local governments;
- provincial equalization grants are needed to enable all communities to provide a basic level of services regardless of their needs or fiscal capacity;
- new programs initiated by the Province should be funded provincially, especially where they benefit non-residents;
- there were various views on the extent to which real property ownership reflects wealth, and on the regressivity of property taxes;
- Crowns should pay full grants-in-lieu of property taxes; S.P.C. should continue to pay municipal surcharges;
- conditional grants distort local priorities, but are useful in ensuring minimum standards and recognizing special needs;
- more federal funding is needed;
- there were various views on the extent to which grants should be distributed on a per capita versus equalization basis;
- the difference between the fiscal years of municipalities and the provincial government and inadequate notice of grant changes causes planning problems for municipalities;

- business taxes and variable mill rates were both supported and criticized; some preferred a business license to business taxes;

Assessment

- concerns expressed about assessment included:
 - inequities between rural and urban assessments;
 - excessive valuation of vacant commercial land;
 - inconsistent valuation of business property;
 - infrequency of reassessments;
 - reassessments done at different times for different communities;
 - impact of reassessment on equalization payments;
 - inadequate explanations of assessment to property owners;
 - the number of exempt properties.
- suggestions included:
 - assessing land on a square foot basis and improvements on a replacement cost basis;
 - better reflect market value;
 - assess communication and transmission equipment and railway lands;
 - keep assessment ratios between land and buildings constant;
 - more resources for and local control over the Assessment Authority
 - more frequent reassessments;
 - exemptions to be at the discretion of the municipality;
 - S.P.C. should pay a special levy if located in a Business Improvement District.

Revenue Sharing Grants

- most urban governments supported revenue sharing as being essential to equalizing needs and fiscal capacities between communities and reducing fiscal imbalances for municipal governments;
- some felt that all or at least the per capita component of revenue sharing could be eliminated and the funds used together with other monies to permit complete provincial funding of education;
- problems cited included: inadequate recognition of costs for rapidly growing or declining communities, police,

transit and emergency planning; uncertain or inadequate escalator; inadequate equalization component; and the use of Statistics Canada population figures;

- some suggested that other grant programs such as the culture and recreation grants and fire protection grants should be combined with revenue sharing.

Capital Grants

- there was general support for an ongoing, predictable, unconditional capital grant program with a per capita amount indexed to inflation, which could be advanced yearly in trust to municipalities. Other suggestions included 5 year advance notice of capital funding; more funding for small communities; incentives for inter-municipal co-operation; equalization. Some thought per capita distribution does not properly recognize varied capital requirements and priorities throughout the Province; others said that provincial evaluation and approval on a needs basis is unacceptable;
- some suggested including all conditional capital grants in an unconditional grant pool, while others felt they should be kept separate;
- it was suggested that there is still a need for conditional capital grants for large projects which occur irregularly;
- concern was expressed about the role of the Saskatchewan Water Corporation in assisting communities with water and sewer costs. Suggestions included stabilizing water rates across the Province and more assistance to communities with above-average costs;
- more assistance is required for urban transportation projects which benefit non-residents.

Debt Financing

- more use could be made of debt financing;
- the role of the Local Government Board in approving long-term borrowings for larger cities was questioned;
- a municipal financing authority should be established to borrow on behalf of municipalities;
- municipal debenture interest should be non-taxable.

Alternative Revenue Sources

- new sources suggested for local governments included an income, gas or sales tax, a hotel room tax, a municipal surcharge by payroll deduction, tax on fire insurance premiums or on real estate transfers, and taxes on non-renewable resource revenues. Problems were pointed out in administering such sources locally;
- one proposal was to assess a uniform provincial mill rate and distribute the proceeds to municipalities on an equalization basis;
- enable tax sharing on property outside an urban centre, where the urban centre provides services to that area;
- more efficiency in spending is required, rather than new revenue sources;

Rebates

- some of the criticisms of these programs were that rebates suggest that property taxes are too high; would not be needed if education were removed from property; administration too costly; and income redistribution effects are inadequate;
- some thought rebates should be retained to adjust the incidence of the property tax--either by using them as tax credits or as grants to local governments; having municipalities administer rebates would increase administration costs;
- there were varying views on the usefulness of rebates to enhance tax collections.

Resort Communities

- resort communities have their own special concerns including:
 - paying increasing proportion of school taxes when residents don't use the facilities;
 - assessment criteria overstate the value of resort property;
 - revenue sharing is based only on permanent residents;
 - no water assistance grants;
 - hospital levies should be based on permanent population, not assessment;

- fire protection grants should be based on assessment, not population;
- ineligibility for rebates on seasonal residences.
- a ward system for resort communities was suggested.

Other Matters

- uniform standard accounting and financial reporting systems should be required;
- legislation should exempt municipalities from liability for damages caused by the operation of a municipal public utility, unless caused by negligence;
- the federal agreement to charge municipalities over 15,000 in population, 90% of R.C.M.P. policing costs should be changed to 25,000 in population.

NORTHERN MUNICIPALITIES

- the main concern was an inadequate economic base on which to levy taxes to meet expenditure needs;
- the new powers given to northern governments under The Northern Municipalities Act are good, but these governments have insufficient resources to carry out the new powers;
- there are a number of specific problems that were identified regarding the financing of governments in the north:
 - small assessment base;
 - high unemployment and hence inability to pay property taxes;
 - high operating and capital costs;
 - inadequate provincial government grants;
 - inadequate library funding;
 - reduced tax base as a result of decisions of the Boundaries Commission;
 - need for more economic development;
- one suggestion was to give northern governments access to mine royalties as part of the tax base under their control.

RURAL MUNICIPALITIES

The following comments were received from rural municipalities and the Saskatchewan Association of Rural Municipalities.

Local Governance

- autonomy for local governments comes from legislation and does not require a local source of revenue;
- accountability requires accessibility by the taxpayer;
- local services are best delivered by local governments which are sensitive to the needs of local citizens.

Future Trends

- rail line abandonment means lower assessment and higher costs due to increased truck traffic;
- roads will continue to be the highest priority of rural municipalities;
- land use conflicts regarding the use of agricultural land is becoming a problem.

Principles of Funding

- services to people do not enhance property values and therefore should be paid for by income taxes;
- services to property should be financed from property taxes. Property owners bear too great a burden of the costs for non-property related services;
- property taxes are not sensitive to income fluctuations;

Rural Revenue Sharing Grants

- revenue sharing grants are inadequate to meet increasing costs; the grants should include an escalator tied to economic growth;
- rural municipalities should be able to get unspent funds from the revenue sharing pool without reducing next year's allocation;
- should be more incentive grants for joint projects;
- some rural municipalities have financial problems due to growing population, especially around urban centres and resorts, creating extra costs for fire, police, road construction and maintenance, recreation, water and sewer, and planning services;

- most were not concerned about the extent of conditional funding, although some indicated they would prefer a greater proportion of unconditional funding;
- the Province should take over the financial responsibility for some municipal roads;
- there was concern about revenue sharing grants to hamlets;
- there is a need for more revenue sharing for roads in the north and for those servicing resorts and Indian Reserves;
- there is a need for higher equalization grants and smaller basic grants;
- oil development activity is costly to rural municipalities since it increases road maintenance costs;
- rural municipalities want a capital grant similar to the one available to urban municipalities.

School Financing

- while most felt schools should not have access to property taxes, some felt schools needed a local tax source to ensure their autonomy;
- school levies are increasing too fast so there is not enough tax room left for rural municipalities;
- renters do not pay enough toward the cost of education;
- only principal residences should be taxed for schools;
- school boards are not accountable to the taxpayer because of the size of school divisions and school trustees are often unknown;
- cottage owners are subject to double taxation for education;
- because rural municipalities collect property taxes, they are criticized for the increase in total property taxes due to school division levies.

Assessment

- assessment does not accurately reflect wealth or ability to pay;

- urban and rural assessments cannot be compared when used to finance common services such as education and hospitals;
- there should be two separate assessment authorities for urban and rural property, each administered by the corresponding department or a board appointed by the corresponding municipal association;
- problems with assessment include rural/urban discrepancies, the exemption of farm buildings, over-valuation of rural residential sub-divisions and shifting emphasis from heavy to light land.

Exemptions

- the tax base of rural municipalities is eroded by exemptions for Crown pastures, provincial wild life lands; government property, parks, Indian Reserves, and annexations. The Crown should pay full grants-in-lieu of taxes and exemptions should be decided upon by the municipality.

Rebates

- rebates give the impression property taxes are too high; they should be paid to the municipalities so that taxes can be reduced;
- rebates should be eliminated and used to fund education;
- rebates are paid to those who do not need them;
- the incentive to pay property taxes which is provided by rebates can be replaced by higher discounts and penalties, set at the discretion of rural municipalities;
- some receive more in rebates than they pay in taxes.

Alternate Sources of Revenue

- a tax on basic income could be used to finance education;
- an oil tax for roads used by oil exploration companies;
- variable mill rates for different classes of property or for hamlets;
- no industrial tax sharing unless urban municipalities share taxes from their industries too;

- low-interest loans could be used;

Other Matters

- oppose boundary changes unless done voluntarily by municipalities;
- near potash mines, land will be unproductive for a long time so a special levy should be collected to cover the costs of rehabilitating those lands;
- traffic officers are required to enforce weight and speed limits on rural roads.

SCHOOL DIVISIONS

The following comments were received from school divisions and the Saskatchewan School Trustees Association.

Local Governance

- access to local revenues allows school divisions to respond to changing local needs and priorities and ensures the quality of education; the property tax provides autonomy and accountability, flexibility in programming, and efficiency;
- schools boards are accessible and accountable to taxpayers;
- for autonomy, school divisions need legislation, unconditional funds and a local source of revenue;
- the separate school system has a constitutional right of access to the property tax;
- universal public education and equality of opportunity are crucial and require a local source of revenue.

Principles of Funding

- the property tax is stable, predictable, and simple to administer and is not the exclusive right of any local government;
- the property tax provides funds from non-resident land-owners;
- the user-pay or benefit principle is not appropriate for education and is contrary to the principle of a universal, compulsory education for all;

- all services provided by local governments are services to people; there is no distinction between services to property and services to people;
- a balance is needed between income taxes, sales taxes, and property taxes, since there is no perfect tax;
- there are inequities in assessment between categories of taxpayers;
- the Province should set standards for and fund basic education with local property taxes paying only for discretionary programs;
- education costs per pupil are less in Saskatchewan than in any other Province and increases in the past 10 years have not been out of line;
- there should be equality of burden for financing education;
- a tax on basic income would be complex, costly to administer and would be inequitable;
- federal funding is needed for education;
- income tax, sales tax, gas tax and royalties cannot be administered locally and are not a viable alternative to property taxes;
- if schools were removed from the property tax, municipalities would increase their property taxes and the total tax burden would be higher;
- the Province should determine basic education costs and pay this amount as grants to school divisions; school divisions could supplement this amount by a local levy of up to 5% of this amount; the Province would get part of its revenue from a uniform education mill rate on all property in the Province.

Operating Funds

- the provincial share of education costs has fallen, causing tensions and reducing the degree of effective equalization;
- the foundation grants provide equality of opportunity and equality of burden;
- various percentages were suggested for the provincial share of education costs; usually 75 - 80% was felt to be accept-

able with no loss of autonomy while reducing concerns about education being financed by property taxes;

- recognized expenditures in the foundation formula should equal actual costs incurred by school divisions;
- grants should be paid earlier in the year to save interest costs;
- teacher salary increases bargained by the Province should be fully recognized in the formula;
- more recognition in the formula should be given for sparsity of population, enrolment declines, special education needs, new programs, and the higher costs for rural schools.

Capital Grants

- the four mill maximum on local contributions for capital projects is beneficial since it provides equalization and allows similar facilities to be provided regardless of the local assessment.
- provincial guidelines for capital projects restrict local autonomy, but that is acceptable;
- the Local Government Board should not have to approve the long-term financing of projects already approved by the Department of Education.

Local Government Co-operation

- competition for property taxes causes tension;
- although some school boards have good relations with municipal governments, there is a need for increased communication and co-operation; pre-budget consultations are suggested;
- school divisions are willing to collect all property taxes and remit the taxes collected on behalf of other local governments;
- school divisions should be consulted by municipalities about cancellations, discounts and write-offs of property taxes;
- rural municipal and school division boundaries should be coterminous;

- favour sharing of school and public library operations in small communities.

Rebates

- rebates are not cost-effective and should be related to income;
- rebates should be used to increase provincial grants for education.

Property Tax Exemptions

- residents in provincial parks use education services, but pay no property taxes.

LIBRARIES

The following points are representative of the comments received from regional and municipal library boards and the Saskatchewan Library Trustees Association.

Future Trends

- new services include video cassettes and computer-related services.

Principles of Funding

- maintain access to property taxes and keep municipally-appointed boards;
- user charges are discriminatory;
- increased provincial funding from income or resource taxes would support the library system through taxes paid by all, not just property owners.

Operating Funds

- regional libraries require greater provincial funding than municipal libraries because of their geographic area; the Province should pay 70% of the costs for regional libraries and 30% of the cost for municipal libraries; northern libraries need more provincial funding;
- the provincial grant formula should exclude the assessment of non-participating municipalities.

Capital Funds

- reinstate conditional capital grants specifically for libraries;
- the costs of facilities should be shared by participating municipalities.

Other

- while some oppose municipalities opting out of regional libraries, others oppose compulsory participation; some felt opting out should require a plebiscite;
- some opposed school-housed public libraries because of reduced services to adults and no savings; others preferred more co-operation between school and public libraries, rather than combined facilities; others were opposed to school boards running libraries.

HEALTH-CARE ORGANIZATIONS

The following points are representative of the concerns raised by the Saskatchewan Health-Care Association and various hospital boards and health-care organizations.

Local Governance

- local autonomy and accountability require local funding and will result in better planning, control, lower costs, and the provision of services desired by local residents;
- local government is not held as accountable for grants as for taxes.

Future Trends

- the balance of health-care services is shifting away from acute care in hospitals to other health-care services.

Principles of Funding

- senior government funds are needed to ensure basic overall standards;
- inequality in the ability to raise local tax revenues should be addressed;

- health-care benefits are not related to assessment; perhaps use a local income tax;
- the users of a service should pay not a user fee, but a municipal levy; some felt user fees should be retained for some health-care services to reduce demand;
- the operating costs of nursing homes should be funded provincially with the municipality paying capital costs.
- municipalities participating in union hospital districts are subsidizing non participating municipalities; suggest that the hospital revenue tax for non-participating municipalities should be set at the average levy for union hospital districts.
- some propose non-profit religious hospitals should have the right to tax, while others feel they should not;
- some agreed with municipal levies for private hospitals in the absence of union hospitals.

Public Health

- provincial support for preventive health programs is a cost-effective method of reducing acute care costs; however, funding for each should be kept separate;
- the local share of costs for preventative health programs is excessive in Regina and Saskatoon and more provincial funding is needed.

Boundaries

- some propose that all non-participating municipalities should be required to organize or join union hospital districts;
- there is a need to address the inability to obtain taxes from municipalities in the northern services area;
- some suggested that coterminous boundaries for hospitals, nursing homes, home-care boards, ambulance boards and public health agencies should be established and it was suggested that health and education districts should be coterminous;
- some thought Catholic hospitals should be able to establish hospital districts or have coterminous boundaries with union hospital districts, if both exist;

- some proposed that a combined health planning district should be established which would levy a health services tax, to be distributed amongst all of the health services within the district.

OTHER ORGANIZATIONS

The following comments were received from a variety of other associations and organizations which presented briefs to the Commission.

Local Governance

- the reasons for the decentralization of spending powers are greater accountability, more citizen influence on decisions, a high degree of choice and efficiency. These require a local source of revenue;
- local autonomy does not have to decrease if provincial funding is substantially increased;
- single source funding is not reliable, reduces the involvement of people in financial and program decision-making, and reduces autonomy and accountability;
- local school boards should have the right, within the guidelines of a provincial education program, to determine the type of program to be offered. This requires local funding;
- public libraries are controlled through local governments and require local funding if municipal councils and library boards are to retain real control.

Principles of Funding

- funding should reflect the benefit principle and the ability to pay principle;
- roads, fire protection and other local services directly related to property should be financed by a property tax;
- a system of education financing should ensure the quality of education and equality of opportunity for students, reasonable stability and continuity, and autonomy and accountability;
- some felt that education should be financed totally or substantially through provincial revenues and not property tax-

es because the burden of financing education costs is too great for property owners. Others felt that education must retain access to property taxes;

- user charges should not be used for public libraries as they discriminate against people of lower incomes;
- a flat rate municipal charge on all occupied sites was suggested;
- elimination of all taxes on dwellings was proposed.

Assessment

- some people living on acreages, hobby farms and combined income farms feel discriminated against by assessment practices;
- a number of people find the apparent shift in emphasis in assessment from residential to business and from improvements to land has adversely affected businesses which require a high proportion of land;
- a number of briefs noted that, as a result of the recent re-assessment, properties in the downtown core have the highest values assigned, although they do not have the highest sales per square foot, rental income, or sales value;
- improvements to facilities and equipment which reduce the consumption of resources should be rewarded by assessment principles instead of providing disincentives, and assessments should represent a realistic economic return on the land as opposed to the resale value of the land.

Business Taxes

- business taxes are a form of double taxation for businessmen, and are not related to services provided, nor applied to other property owners;
- business taxes are levied with no regard to the viability of the business, and add to the costs of production, thus inhibiting business opportunities.

Municipal Grants

- the Province should establish a formal program of assistance for the establishment and operation of planning districts;

- provincial grants must be increased to reflect the real costs of providing service in rural areas;
- capital grants should be considered for rural municipalities.

School Finance

- some suggested that the equalization formula, capital grants and bi-level bargaining for teacher salaries are sound and provide equality and equity in the Province, such that rural school divisions can have programs and facilities of high quality;
- others state that grants to rural school divisions have been reduced and that this jeopardized the quality of education for rural students.

Library Grants

- provincial grants should restrain the burden of the property tax through a 70% provincial, 30% municipal funding mix for regional libraries;
- capital grants should be reinstated;
- provincial grants to Regina and Saskatoon public libraries should be increased to 30% of operating costs and more grants are needed for libraries in the north.

Recreation Grants

- recreation needs are increasing;
- sharing of operating costs for recreational facilities between urban and rural municipalities is required;
- in northern Saskatchewan, distance and a lack of a property tax base make the provision of recreation programs difficult;
- tax incentives for public and private co-operation for recreation would be beneficial;
- district recreational planning areas should be established to encourage co-operation and greater co-ordination.

Property Tax Rebates

- some proposed the rebate system for property taxes should continue so as to reduce the regressiveness of property taxes and that the rebates should be deducted from the property tax bill;
- an education tax rebate based on net farm income was proposed which would be treated as an income tax credit; those with lower than average incomes would pay no school taxes as a result.

Other

- a municipal funding authority could issue bonds for capital requirements of local governments;
- there was a concern about taxpayers in Lloydminster paying the Alberta school foundation levy which represents double taxation to Saskatchewan taxpayers;
- governments should concentrate on co-ordinating services rather than becoming the competitor to business;
- the sharing of finance and administration functions between local governments could reduce costs;
- early payment discounts for property taxes should reflect interest savings by local authorities;
- school-housed public libraries reduce services to the adult population and there are no financial savings;
- more communication between school and public libraries should be encouraged.

INDIVIDUALS

The following comments are representative of the views received from individuals.

Local Government

- strong local government must have purpose, authority, responsibility and accountability; financial and physical resources to carry out its mandate; and a reasonable population base.

Property Tax

- the property tax ensures resident and non-resident property owners contribute to the welfare of the community; deters land speculation; and encourages productive use of land;
- those who do not own property contribute their share of property tax through rents and purchases;
- the property tax is not unduly burdensome when inflation and expanded services are considered; with rebates, property taxes may be very low;
- property tax provides a stable revenue base with straightforward administration;
- property taxes are regressive as they penalize improvements;
- some felt that education and other non-municipal local governments must retain access to the property tax base while others did not think it was necessary;
- some felt that education taxes on property should not be assessed against businesses or cottage owners since they derive no benefits and are double taxed; they should be entitled to rebates;
- more federal and provincial support for education is required;
- if schools were removed from property taxes, municipal governments would increase the mill rate and school costs would increase in the absence of local control;
- the use of business taxes was questioned.

Assessments

- the assessment of farm land based on the ability to produce wheat is equitable, except for substantial increases for irrigated land;
- some thought inequities between urban and rural tax loads could be adjusted through changes in the assessment formula;
- some found reassessment has increased tax loads and makes it difficult to keep business viable;
- in rural areas, some felt the exemption of buildings based on the occupant's source of income creates problems regard-

ing the definition of agriculture; others said the current assessment system was unfair to people on acreages, and it was proposed that if all residences and land were assessed regardless of source of income, taxes would be more fair;

- it was proposed that farm land should be exempt from taxation, but all other land, including farm dwellings, and buildings, would be assessed.

Municipal Grants

- the inter-municipal road system serves a wider community and requires standards; it should be accomplished through conditional provincial grants;
- rural municipalities should receive capital grants similar to those for urban municipalities.

Rebates

- some feel that property tax rebates redistribute the tax burden and are an incentive for paying taxes on time, but could be replaced by a tax penalty;
- rebates should be deducted prior to payment of property taxes; rebates for school taxes should be applied to land only, not homes; school taxes should be rebated at age 60 instead of age 65.

Alternative Revenue Sources

- some felt income taxes could be directed to local governments or used to finance libraries, parks and other services to a greater extent to reduce the burden on property tax; however, some thought a tax on basic income could not be administered locally;
- it was proposed that sales taxes should be used instead of property taxes because they are based on willingness to pay rather than capacity to earn; the system is easy to administer and would remove personal income tax forms and property tax bills; these taxes and corporate income taxes would be distributed through an equitable formula;
- while some thought a variable mill rate could reflect services supplied and environmental damage caused by the use of land, others were concerned that a variable mill rate is inequitable;

- a tax on gasoline should provide funds for highways and main market roads to capture revenue from non-residents who use roads; hunting license fees should be used to pay taxes on wildlife habitat land; a poll tax is not effective.

Library Funding

- there was support for the present procedure for library financing with voluntary participation by municipalities in their regional libraries.

Boundaries

- a suggestion was made to amalgamate rural municipalities so as to achieve more efficient use of staff, road and other equipment; better co-ordination with urban centres; and more efficient services. It was proposed that financial incentives for amalgamation be provided.

Administration

- some advocated closer co-operation between city councils and school boards in planning and development. Further, municipal and school board property taxes should be collected by one agency.
- Urban Affairs should develop qualifications for municipal administrators, particularly regarding financial planning; develop a data base for budgeting; work closely with municipalities on program planning and implementation; and assist in designing accounting control and reporting systems;
- a combined Department of Municipal Affairs should be created as two departments have caused inefficiencies and duplication of service; the Department of Urban Affairs should be decentralized.

POOR

QUALITY

ORIGINAL